

AUDIT COMMITTEE

MONDAY 24 JUNE 2013

7.00 PM

Bourges/Viersen Room - Town Hall

THE CHAIRMAN WILL ASSUME THAT MEMBERS HAVE READ THEIR PAPERS PRIOR TO THE MEETING TO AVOID UNNECESSARY INTRODUCTIONS TO REPORTS. IF ANY QUESTIONS ARE APPARENT FROM THE REPORTS THEY SHOULD BE PASSED TO THE REPORT AUTHOR PRIOR TO THE MEETING

AGENDA

Page No

1. **Apologies**

2. **Declarations of Interest**

At this point Members must declare whether they have a disclosable pecuniary interest, or other interest, in any of the items on the agenda, unless it is already entered in the register of members' interests or is a "pending notification" that has been disclosed to the Solicitor to the Council.

Members must also declare if they are subject to their party group whip in relation to any items under consideration.

3. **Budget Monitoring Report Final Outturn 2012 / 2013**

3 - 18

To receive, consider and endorse the final outturn position for the year ended 31 March 2013

4. **Draft Statement of Accounts**

19 - 116

To receive, consider and endorse the draft Statement of Accounts for 2012 / 2013

5. **Internal Audit: HoIA Opinion 2012 / 2013**

117 - 148

To receive, consider and endorse the annual report on Internal Audit activities for the year ended 31 March 2013

6. **Internal Audit: Review of Effectiveness**

149 - 158

To receive, consider and endorse the annual review of the effectiveness of Internal Audit for the year ended 31 March 2013 together with any associated action plan

- 7. Draft Annual Governance Statement** **159 - 200**
- To receive, consider and endorse the draft Annual Governance Statement for the year ended 31 March 2013
- 8. Invest To Save Update** **201 - 206**
- Following a Member request to External Audit to review the Invest to Save scheme, PwC will provide an update on their works
- 9. Feedback Report** **207 - 208**
- 10. Work Programme 2013 / 2014** **209 - 216**



There is an induction hearing loop system available in all meeting rooms. Some of the systems are infra-red operated, if you wish to use this system then please contact Karen S Dunleavy on 01733 452233 as soon as possible.

Emergency Evacuation Procedure – Outside Normal Office Hours

In the event of the fire alarm sounding all persons should vacate the building by way of the nearest escape route and proceed directly to the assembly point in front of the Cathedral. The duty Beadle will assume overall control during any evacuation, however in the unlikely event the Beadle is unavailable, this responsibility will be assumed by the Committee Chair.

Committee Members:

Councillors: D Lamb (Chairman), C Harper (Vice Chairman), N Arculus, M Lee, J Knowles, M Fletcher, S Lane and N Sandford

Substitutes: Councillors: P Kreling, E Murphy and A Miners

Further information about this meeting can be obtained from Karen S Dunleavy on telephone 01733 452233 or by email – karen.dunleavy@peterborough.gov.uk

AUDIT COMMITTEE	AGENDA ITEM No. 3
24 JUNE 2013	PUBLIC REPORT

BUDGET MONITORING REPORT FINAL OUTTURN 2012/13

R E C O M M E N D A T I O N S	
FROM : Executive Director Strategic Resources	Deadline date : 10 June 2013
<p>That Audit Committee approve:</p> <ol style="list-style-type: none"> 1. The reserves position for the Council, and note: 2. The final outturn position of £135k under spend on the Council's revenue budget 2012/13 and that this is an improvement since the probable outturn position. 3. The final outturn position of £111.7m on the Council's capital budget 2012/13. 4. The performance against the prudential indicators. 5. The performance on treasury management activities, payment of creditors, collection performance for debtors, local taxation and benefit overpayments. 	

1. ORIGIN OF REPORT

1.1 This report is submitted to Audit Committee as a referral from the S151 officer as part of the Council's Statement of Accounts.

2. PURPOSE AND REASON FOR REPORT

2.1 The report provides Audit Committee with the final financial position for both the revenue budget and capital programme for 2012/13 and requires the Committee to approve the reserves position as part of the Council's Statement of Accounts.

2.2 The report also contains performance information on treasury management activities, payment of creditors and collection performance for debtors, local taxation and benefit overpayments.

2.3 The report is for Audit Committee to consider under its Terms and Reference No 2.2.16 to consider the Council's arrangements for corporate governance and agreeing necessary actions to ensure compliance with best practice.

3. TIMESCALE

Is this a Major Policy Item/Statutory Plan?	No	If Yes, date for relevant Cabinet Meeting	
---	----	---	--

4. FINAL OUTTURN 2012/13

4.1 Corporate Overview

- 4.1.1 When Full Council approved a deficit budget for 2012/13 within the Medium Term Financial Strategy (MTFS) in February 2012, it was on the basis that it would use reserves to balance the 2012/13 budget. The MTFS also outlined that there were a number of financial risks that the Council would need to monitor during the year.
- 4.1.2 As the financial year progressed, some risks materialised and further pressures emerged across demand led budgets within adult social care and children services, the local economic conditions adversely impacting on income budgets such as commercial property and parking.
- 4.1.3 The corporate management team have been regularly advised of the risks and emerging pressures throughout the year and have taken appropriate action to deal with the issues. The Cabinet have received regular updates since September's Cabinet report outlined an over spend of £3.3m on the 2012/13 revenue budget. Cabinet continued to assess and recommend actions to reduce the overspend and assess whether the risks and pressures would continue into future financial years. The report to Cabinet in February which was also presented to Full Council during March, reported a reduction in the over spend to £0.8m.
- 4.1.4 The actions undertaken by the Corporate Management Team and Cabinet included:
- Departmental management teams have reviewed the budget position monthly and taken appropriate action including having action plans to address budget issues;
 - Where possible departments have contained pressures with local actions and this has been acknowledged in corporate budget reports. Adult social care has specifically implemented a robust panel process for accessing placements and a similar process is in place within Childrens services. Adults have also implemented a strict vetting process for recruitment, a gate keeping process on supplies and services spending and have prioritised income generation;
 - CMT have received specific reports on the RAG status of savings proposals and additional risks and pressures with a focus on red and amber;
 - Vacancy management across the Council, only recruiting to essential posts;
 - Spending on business critical issues only including the deferral of some growth project spend into future financial years once the market conditions generate an opportunity to facilitate growth within the city;
 - The capital programme has been reviewed during the year, deferring projects into future financial years or removing projects that are no longer required. This has reduced the level of borrowing required and the saving on interest and repayments have resulted in a reduced cost charged to the revenue account;
 - Where possible all opportunities have been taken to capitalise expenditure relieving the pressure on the revenue account; and
 - Review of reserves and provisions, particularly the commitments within the capacity fund.
- 4.1.5 The achievement of these actions resulted in the Council's final revenue position 2012/13 being £135k under spent which has subsequently been set aside in the capacity building reserve. The capital programme spend is £111.7m. The next two sections of this report provide further detail on the revenue budget and capital programme.
- 4.1.6 In conclusion, the Council has managed the financial challenges during 2012/13 with positive actions balancing the need to meet the challenges of the national economic climate and the demands of local circumstances without detriment to service delivery and has delivered a balanced budget position.
- 4.1.7 However, even with the improved position on the revenue account and increased reserves, the Council cannot be complacent in managing financial resources given the deficits forecast in future years and the continued impact of the economic climate and must strive to ensure value for money is provided across all services.

4.1.8 The Council remains committed to its strategy in delivering service efficiencies and improvements using a proactive approach to managing Council finances and through the continued delivery of a longer term financial plan covering a rolling ten year cycle.

4.2 Financial Report – Revenue

4.2.1 The Council's overall revenue position is an under spend of £135k against the budget of £150,426k and represents a net improvement of £915k since the probable outturn was reported to Full Council in March as part of the 2013/14 budget setting process. The probable outturn was based on December figures and since it was reported CMT have been advised of improvements based upon January and February figures. The surplus of £135k will be transferred to the capacity reserve as part of the closure of accounts process, leaving the General fund balance at its current level of £6m.

4.2.2 An overview of the Council's final revenue position for each department for 2012/13 is shown in the following table compared to the probable outturn and a detailed breakdown by service area can be seen in appendix A. The key movements since the probable outturn are set out below for each department in paragraph 4.2.3.

Probable Outturn March Council £k	Department	Final Outturn £k
-897	Adult Social Care	0
-847	Children Services	-922
-86	Operations	64
542	Chief Executive	982
508	Strategic Resources	11
-780	OUTTURN – surplus (+) / deficit (-)	135
	Transfer of surplus to Capacity Reserve	-135
	Final General Fund Revenue Outturn	0

4.2.3 The main changes since the probable outturn was presented to March Cabinet were:

Adult Social Care – Extra one off funding under the 'Valuing People Now Transfer' and winter pressures monies totalling £0.4m, vacancy management and other targeted savings of £0.8m, offset by a contribution to reserves of £0.3m to support the department's delivery of savings in 2013/14.

Children Services – The net change of under £0.1m related to minor fluctuations against confirmation of final costs as part of the closure of accounts that could not be absorbed by the department's action plan.

Operations - The outturn position has improved through the continued actions taken within the departments action plan to manage vacancies and curtail spend on supplies and services budgets. In addition, further income improvements providing health and safety to schools and reduced costs in Neighbourhoods totalling £0.2m.

Chief Executive – The further improvement to the departments under spend is a result of the release of the land charges provision being confirmed as no longer required £0.4m and minor updates through vacancy management and curtailing of supplies and services budgets.

Strategic Resources – The further net improvement since probable outturn was over a range of areas impacted by final closure of accounts processes and improved income comprising of:

Improvements to outturn

- Treasury management and savings in capital financing costs (£0.7m)

- Income from the VAT Shelter arrangement with Cross Keys, waste services, housing benefit subsidy and registration and bereavement totalling (£0.8m)
- An improvement on vacant property rental income from earlier forecasts (£0.1m)

Increased cost pressures

- Increase on the bad debt provision contribution (£0.1m)
- Westcombe Industries backdated VAT claim (£0.5m)

4.2.4 Key reasons for the final outturn position within Chief Executive department (£1m underspend) and Children Services (£0.9m overspend) were as follows:

- Chief Executive – the under spend is predominantly a re-profiling of growth budgets into future financial years (£0.4m), the release of a provision held for land charges (£0.4m), members allowances (£0.1m) and other minor savings.
- Children Services – the demand led budgets associated with looked after children, home to school transport and the short breaks review offset by a range of departmental actions across all budget areas as reported from September 2012 onwards.

4.2.5 The Dedicated Schools Grant shows an under spend of £898k against a budget of £119.0m. Schools Forum is responsible for decisions related to the Dedicated Schools Grant. This has been included for information purposes only. In accordance with accounting guidance, the under spend has been carried forward to next financial year.

4.3 Financial Report – Reserves

4.3.1 The Council's departmental reserves and capacity building reserve are monitored throughout the year as part of budget monitoring and feed into the budget setting process accordingly. The table below summarises the estimated position for all reserves at the end of 2012/13 and for the next five years.

	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18
Reserve	Estimated Balance at 31.03.13 £000	Estimated Balance at 31.03.14 £000	Estimated Balance at 31.03.15 £000	Estimated Balance at 31.03.16 £000	Estimated Balance at 31.03.17 £000	Estimated Balance at 31.03.18 £000
General Fund Balance	6,000	6,000	6,000	6,000	6,000	6,000
Capacity Building Reserve	4,426	2,311	1,748	1,748	1,748	1,748
Departmental Reserve	5,845	697	585	580	575	570
Subtotal	16,271	9,008	8,333	8,328	8,323	8,318
Reserves held for a specific purpose^{*1}						
Insurance Reserve	3,811	3,097	2,997	2,897	2,797	2,697
Schools Capital Expenditure Reserve	955	955	955	955	955	955
Parish Council Burial Ground Reserve	37	37	37	37	37	37
Local Authority Mortgage Scheme Reserve	36	36	36	36	36	36
Building Control Reserve	24	0	0	0	0	0
School Leases Reserve	171	180	189	197	59	48
TOTAL	21,305	13,313	12,547	12,450	12,207	12,091

*1 – Reserves that are held for a specific purpose such as trading accounts, third parties that have an interest in the balance before it can be used to support general fund expenditure or to support Council policies.

- General Fund – The general fund will be maintained at £6m and this is consistent with the current MTFS.
- Capacity Building Reserve – This reserve is held to meet one off costs including the delivery of existing savings within the current MTFS. The improvement to the reserve since Full Council set the 2013/14 budget is predominantly due to the improved revenue outturn position and the release of revenue budget for expenditure that can be funded within the capital programme.
- Departmental Reserves – The amounts set aside by departments during the preparation of the accounts is in accordance with financial guidance to minimise risk exposure to the Council in the following financial year. Most of the £5.8m balance reflects a new reserve of £3m resulting from a grant in respect of the future cities programme and will be utilised during 2013/14. Other changes in the balances since full Council include £323k for investment in Adult services, £390k for energy related projects, £444k for various Operations department activities and £419k within Childrens services.

4.3.2 Although the reserves position has improved overall, the majority of this balance will be required during 2013/14 and is therefore not additional monies, only a timing issue between financial years of when the commitments are likely to occur.

4.4 Financial Report – Capital

4.4.1 At the beginning of the financial year, the capital programme was £251.8m, the result of the agreed capital programme for 2012/13 of £244.6m and slippage from the previous financial year of £7.2m. Throughout 2012/13 the capital programme was regularly reviewed and was finally reduced to £116.0m.

4.4.2 Capital expenditure during 2012/13 totalled £111.7m as shown in the summary table below.

Overall position of the Capital Programme 2012/13 as at 31 March 2013

Capital Programme by Directorate	Budget @ 01.04.12 £000	Revised Budget £000	Actual Expenditure £000	Total Budget Spent
Adult Social Care	4,524	1,417	1,395	98%
Chief Executive Dept	14,517	3,499	2,850	81%
Children's Services	72,911	79,114	76,584	97%
Operations	20,529	14,715	14,225	97%
Strategic Resources	39,337	14,050	13,725	98%
Invest to Save	100,000	3,220	2,954	92%
Total	251,818	116,015	111,733	96%
Financed by:				
Grants & Contributions	35,232	38,279	31,415	82%
Capital Receipts	15,495	5,059	5,059	100%
Borrowing - Invest to Save	100,000	3,220	2,954	92%
Borrowing	101,091	69,457	72,305	104%
Total	251,818	116,015	111,733	96%

4.4.3 Significant projects that contributed to the decrease in the overall capital programme from £251.8m to £116.0m include:

- **Adult Social Care** - £3m for the rephasing of the residential home replacement project into 2013/14.
- **Chief Executives** - £11m including:
 - £8.3m for the refurbishment of the Football Stadium.
 - £1.9m - Cost of Disposals budget.
 - £1m - Corporate Growth Area budget was slipped due to the continued suppressed economic climate. This has led to the developers delaying investment in growth plans.

- **Children's Services** – The movement of £6.2m between the budget as at 1st April 2012 and the current budget was mainly due to the agreed slippage from the previous year and a review of the capital programme after the budget had been agreed.
- **Operations** - £5.8m including:
 - £2.8m - Affordable Housing budget due to the overall economic environment which has led to stagnant building programmes and delays to other major projects. External demand for the Affordable Housing funding has continued to be low and only £0.17m of the original £3m has been paid out this financial year.
 - £0.25m - Off Street Car Parks as the programme was delayed due to staff changes and the ongoing Car Park rationalisation programme.
 - £0.33m - St Peter's Arcade was rephased and is due to be completed in June 2013.
 - £0.4m - Bourges Boulevard Subway as the scheme is only at the design stage and will be rolled into the Bourges Boulevard project in the future.
 - £0.3m - Street Lightings adaptations project was delayed due to adverse weather conditions experienced during December and January. The work will be completed in early 2013/14.
 - £0.3m - Traffic Signal Upgrade has been delayed and the project is still expected to be delivered in the next financial year.
- **Strategic Resources** - £25m including:
 - £15.5m slipped into future years for the Waste Management Strategy due to the change in planned timescales
 - £2.8m Peterborough Serco Strategic Partnership
 - £1m Broadband infrastructure
 - £2m Local Authority Mortgage Scheme
 - £3.8m on various small schemes.
- **Invest to save** - £96.8m rephased to 2013/14 onwards
 - In total £3.2 m was allocated to two schemes in 2012/13 with the balance being rephased into 2013/14 at an early stage. Just under £3m has been spent during 2012/13 and the balance will be carried forward into 2013/14 to add to the rephased budget.
 - Schools Solar PV Installation - £1.5m of Invest to Save budget has been spent on installing solar panels to school buildings. Phase 1 of the programme has been completed where 12 schools now benefit from the renewable energy that is generated from these panels. It is hoped that the programme will be further rolled out across schools in Peterborough. Feasibility is being undertaken to establish whether this is possible, with a further £5m agreed for this Phase 2 programme.
 - Development of Ground Mounted Solar Photovoltaic (PV) Panels (Solar Farms) and Wind Turbines – at the Cabinet meeting of 5 November 2012 the proposal to submit planning application in respect of development of ground mounted solar photovoltaic panels across three Council owned agricultural sites (Americas Farm, Morris Fen and farms at Newborough) was approved and £1.5m has been spent in 2012/13 on this scheme. This is a major scheme and it was agreed during the budget process to set up a specific budget from 2013/14 onwards with the result that there will be no further call on the invest to save budget for the scheme.
 - It was originally intended to use some of the invest to save pot to support the Energy from Waste scheme, allowing a larger plant to be built, providing greater generating capacity and on-going income. Given the timing of this project, the Council capital programme now includes the specific capital budgets required for this project and thus no longer uses the Invest to Save scheme.

- A review of the Invest to Save scheme principles has been undertaken by Price Waterhouse Coopers and findings shared with members of the Audit Committee, a separate report can be found elsewhere on your agenda.
- 4.4.4 The capital programme is financed through borrowing, capital receipts, grants and contributions. The amount of borrowing required has reduced due to slippage in the capital programme since the MTFs was approved. The Council has borrowed £75.3m during 2012/13 to fund the capital expenditure.
- 4.4.5 The funding of the 2012/13 capital programme assumed £15.3m of capital receipts and £0.2m of Right to Buy receipts. The actual capital receipts received were £4.8m and £0.3m respectively. Receipts received were less than budgeted due to various issues surrounding the selling of land/properties which cause the anticipated income from disposals to slip into 2013/14.

4.5 Financial Report – Treasury Management Activity for 2012/13

- 4.5.1 The Treasury Management Strategy was updated during the year as part of the Medium Term Financial Plan. It contains the strategy for borrowing and investing for the next financial year and details the approved prudential indicators for the next ten years. The main objectives of the Strategy are:
1. To utilise surplus cash balances to fund the capital programme as an alternative to borrowing. Cash required for short term cash flow is to be invested with dependable institutions for short periods in accordance with the Council's lending list.
 2. Borrowing required to fund the capital programme will be obtained at the cheapest possible interest rate to reduce the revenue cost to the Council and for a range of periods to best fit the Council's debt maturity profile.
 3. To seek to reschedule debt at the optimum time.
- 4.5.2 The 2012/13 treasury management activities are summarised as follows:
- a. In 2012/13 it was necessary to take out new borrowing of £76m to fund the capital programme (£75.3m) and to cover short term cash flow fluctuations (£0.7m). The borrowing has been taken out over a range of periods to best fit the Council's maturity profile of debt. Also the best possible interest rate has been sought in line with the budget for borrowing. The budget for new borrowing in 2012/13 was £1.8m of which £228k was required.
 - b. As part of the new borrowing undertaken, long term borrowing of £21m for 10 years or more has been taken out during February and March with the PWLB. As the Council is eligible for the PWLB Certainty Rate of a discount of 0.20 basis points, the Council has benefited from a lower interest rate on long term borrowing.
 - c. In order to mitigate the risk linked with the ongoing financial uncertainty in the UK and in the Eurozone, investments were placed in accordance with the Council's restricted lending list. The current lending list ensures investments are secure and liquid but results in low interest returns as limited institutions are used and the impact of the low bank base rate, which has remained at 0.50% since March 2009.
 - d. Investments were placed for short periods to cover daily cash flow fluctuations. Surplus cash was invested in line with the Treasury Strategy to ensure security and liquidity therefore yield is lower due to low risk options used. Surplus cash is placed in the Barclays call account which has a restricted limit of £5m and yields 0.50%. The Debt Management Office (DMO) is also used for short term fixed investments with a yield of 0.25%. The DMO is one of the most secure institutions as it is a Government agency part of Her Majesty's Treasury.
 - e. Consideration has been made to rescheduling debt however there have been no suitable opportunities to do this. The difference between the repayment rate and the rate of a new loan has not resulted in a net discount to the Council and no savings were to be made.
- 4.5.3 The Capital Financing Requirement (CFR) measures the Council's underlying need to borrow money in the long term for capital purposes. In accordance with the 2009 SoRP

this now includes the liability for the Private Finance Initiative (PFI) agreement and the 2010 Code of Practice has revised the way the Council accounts for some leases which also impacts on the CFR.

4.5.4 Further information on the Council's capital financing arrangements can be found in the Prudential Indicators performance found in Appendix B.

4.5.5 In 2012/13 the CFR was:

	£000
Opening Capital Financing Requirement 1 April 2012	250,184
New Capital Expenditure Financed by Borrowing	75,259
Minimum Revenue Provision for Debt Repayment	(7,081)
Minimum Revenue Provision for PFI	(1,468)
Minimum Revenue Provision for Leases	(800)
Closing Capital Financing Requirement 31 March 2013	316,094

4.6 Financial Report – Performance Monitoring

4.6.1 An outline of performance against key indicators can be seen in appendix C.

5. CONSULTATION

5.1 Detailed reports have been discussed in Departmental Management Teams.

6. ANTICIPATED OUTCOMES

6.1 To note the final outturn position for revenue and capital 2012/13 for the Council.

6.2 To approve the reserves position for the Council.

6.3 To note the performance figures and prudential indicators for the Council.

6.4 To note the actions that has been taken during 2012/13.

7. REASONS FOR RECOMMENDATIONS

7.1 This monitoring report for the 2012/13 financial year forms part of the closure of accounts and decision making framework culminating in the production of the Statement of Accounts.

8. ALTERNATIVE OPTIONS CONSIDERED

8.1 None required at this stage.

9. IMPLICATIONS

9.1 This report does not have any implications effecting legal, human rights act or human resource issues.

9.2 Members must have regard to the advice of the Section 151 Officer. The Council may take decisions which are at variance with this advice, providing there are reasonable grounds to do so.

10. BACKGROUND DOCUMENTS

Used to prepare this report, in accordance with the Local Government (Access to Information) Act 1985.

Detailed monthly budgetary control reports prepared in Departments.

APPENDIX A

REVENUE MONITORING REPORT AT END OF MARCH 2013

Probable Outturn (Dec 12) £k		Budget 2012/13 £k	Final Outturn 2012/13 £k	Variance 2012/13 £k
	ADULT SOCIAL CARE			
4	Director of Adult Social Care	412	408	4
-889	Strategic Commissioning	34,661	34,870	-209
-660	Care Services Delivery	10,588	11,097	-509
343	Quality, Information and Performance	1,830	1,329	501
305	Finance and Organisational Change	-439	-652	213
-897	TOTAL ADULT SOCIAL CARE	47,052	47,052	0
	CHILDREN SERVICES			
-185	Education and Resources	-1,075	-934	-141
-799	Strategy, Commissioning and Prevention	23,478	24,179	-701
0	Safeguarding Family and Communities	8,641	8,721	-80
137	Departmental Action Plan	0	0	0
-847	TOTAL CHILDREN SERVICES	31,044	31,966	-922
	OPERATIONS			
7	Business Support	380	421	-41
-950	Commercial Operations	-1,544	-528	-1,016
567	Directors Office	1,125	546	579
-550	Neighbourhoods	6,347	6,755	-408
514	Planning, Environment, Transport and Engineering	14,293	13,343	950
326	Departmental Action Plan	0	0	0
-86	TOTAL OPERATIONS	20,601	20,537	64
	CHIEF EXECUTIVE'S DEPARTMENT			
52	Chief Executive's Office	341	279	62
88	Legal and Governance Services	3,739	3,245	494
11	Chief Executive Departmental Support	165	141	24
391	Growth and Regeneration	2,196	1,823	373
0	Communications	548	554	-6
0	Human Resources	965	930	35
542	TOTAL CHIEF EXECUTIVE'S DEPARTMENT	7,954	6,972	982
	STRATEGIC RESOURCES			
0	Director's Office	198	199	-1
1,480	Corporate Services	15,468	14,735	733
0	Environment Capital	694	726	-32
44	Internal Audit	327	263	64
0	Insurance	294	294	0
-305	Strategic Client Services	-976	-1,177	201
0	Peterborough Serco Strategic Partnership	8,090	8,145	-55
0	ICT	3,700	3,704	-4
-491	Waste and Operational Services Management	12,279	12,684	-405
-134	Cultural Services	4,542	4,702	-160
9	Registration and Bereavement	-852	-974	122
-95	Westcombe Engineering	11	463	-452
508	TOTAL STRATEGIC RESOURCES	43,775	43,764	11
-780	TOTAL GENERAL FUND	150,426	150,291	135

Appendix B – Treasury Management Strategy – Prudential Indicators – 2012/13

The Prudential Code for Capital Finance in Local Authorities provides a framework for local authority capital finance to ensure that:

- (a) capital expenditure plans are affordable,
- (b) all external borrowing and other long term liabilities are within prudent and sustainable levels;
- (c) treasury management decisions are taken in accordance with professional good practice.

In taking decisions in relation to the above points, the local authority is accountable by providing a clear and transparent framework.

The Code requires the Council to set a range of Prudential Indicators for the next five financial years. During the financial year to date the Council has operated within the treasury limits and Prudential Indicators set out in the Council's Annual Treasury Management Strategy.

The 2012/13 Prudential Indicators below show the Council's performance for the financial year.

1. Indicator One: Estimates and actual Capital Expenditure 2012/13

This indicator is the actual capital expenditure for the financial year.

	Indicator	Actual
Capital Expenditure	£244.6m	£111.7m

2. Indicator Two: Estimates of actual capital financing requirements and net borrowing

The Capital Financing Requirement (CFR) measures the Council's underlying need to borrow money in the long term for capital purposes. It is calculated from various capital balances in the Council's Balance Sheet.

	Indicator	Actual
CFR	£433.6m	£316.1m

3. Indicator Three: Affordability (1) Estimate of actual ratio of financing costs to net revenue stream

The Council must estimate the proportion of the revenue budget, which is taken up in financing capital expenditure i.e. the net interest cost and to make provision to repay debt. This ratio has been revised to reflect the impact of finance lease adjustments.

	Indicator	Actual
Financing costs to revenue stream	5.9%	5.2%

4. Indicator Four: Affordability (2) Estimate of the incremental impact of capital investment decisions on Council Tax

This indicator is intended to show the impact of the Council's decisions about capital investment on the level of Council Tax required to support those decisions over the medium term.

The calculation of this indicator has been done on the basis of the amount of the capital programme that was financed from borrowing. The calculation is based on the interest assumption for borrowing that was included in the capital financing budget. The revenue costs are divided by the estimated Council Taxbase for the year:

	Indicator	Actual
Incremental impact on Council Tax	£5.01	(£71.88)

5. Indicator Five: Net Debt and the CFR

This indicator ensures that over the medium term debt will only be for capital purpose and the Council should ensure that debt does not, except in the short term, exceed the total of CFR in the preceding year or for the current and next two financial years. Note this indicator has been revised for 2013/14 onwards to show the percentage of Gross Debt to the CFR.

	Indicator	Actual
Net Debt	£365.3	£239.6
% of Net Debt to the CFR	84.3%	75.8%

6. Indicators Six: External Debt Prudential Indicators

The Authorised Limit represents the maximum amount the Council may borrow at any point in time in the year. It is set at a level the Council considers is “prudent”.

The indicator takes account of the capital financing requirement estimated at the start of each year, plus the expected net borrowing requirement for the year. This makes allowance for the possibility that the optimum time to do all borrowing may be early in the year.

The limits also incorporated margins to allow for exceptional short-term movements in the Council’s cash flow, bids from service departments to finance efficiencies, changes to the timing of capital payments and fluctuations in the realisation of capital receipts.

	Indicator	Actual
Authorised limit for external debt	£536.4m	£250.1m
Operational limit for external debt	£443.6m	£250.1m

It is ultra vires to exceed the Authorised Limit so this should be set to avoid circumstances in which the Council would need to borrow more money than this limit. However, the Council can revise the limit during the course of the year.

“Other long term liabilities” include items that would appear on the balance sheet of the Council under that heading. For example, the capital cost of finance leases and the PFI agreement.

The Operational Boundary is a measure of the day to day likely borrowing for the Council, whereas the Authorised Limit is a maximum limit. The code recognises that circumstances might arise when the boundary might be exceeded temporarily, but if this continues for a lengthy period then it ought to be investigated.

The following indicators take into consideration the capital programme over the life of the MTFs and the ability to phase the borrowing over this period. The indicators provide flexibility for the Council to take advantage favourable interest rates in advance of the timing of the actual capital expenditure.

7. Indicator Seven: Variable interest rate exposure

This indicator places an upper limit on the total amount of net borrowing (borrowing less investment) which is at variable rates subject to interest rate movements. The intention is to keep the variable rate borrowing below 25% of the total gross borrowing (CFR).

The limit is expressed as the value of total borrowing less investments

	Indicator	Actual
Upper limit for variable rate exposure	£123.0m	0.0

8. Indicator Eight: Fixed Interest rate exposures

This indicator places an upper limit on the total amount of net borrowing which is at fixed rates secured against future interest rate movements. The upper limit allows flexibility in applying a proportion of the investment portfolio to finance new capital expenditure. It also reflects a position where the great majority of borrowing is at fixed rate which provides budget certainty with 100% of borrowing being at fixed rate. The upper limit for fixed interest rate exposure was set to allow for flexibility in applying a proportion of the investment portfolio to finance new capital expenditure. It also reflected a position where the great majority of borrowing was at fixed rates to provide budget certainty.

	Indicator	Actual
Upper limit for fixed rate exposure	£536.4m	£208.9m

9. Indicator Nine: Prudential limits for the maturity structure of borrowing

The prudential limits have been set with regard to the maturity structure of the Council's borrowing, and reflected the relatively beneficial long term rates that were expected to be available over the next few years. The limits were as follows:

Period	Upper Limit Estimate	Actual Borrowing
Under 12 months	40%	8%
1 - 2 years	40%	18%
2 - 5 years	80%	5%
5 - 10 years	80%	4%
over 10 years	100%	65%

10. Indicator Ten: Total Investments for periods longer than 364 days

Authorities are able to invest for longer than 364 days; this can be advantageous if higher rates are available. However it would be unwise to lend a disproportionate amount of cash for too long a period particularly as the Council must maintain sufficient working capital for its operational needs.

The Executive Director - Strategic Resources has therefore sought the advice of Sector Treasury Services Ltd, the Council's treasury advisors, who recommended that, given the structure of the Council's balance sheet and its day to day cash needs, it would be reasonable to maintain the limit for investments with life spans in excess of 1 year to £25 million. Consequently it is proposed to keep the limit for investments that may be deposited for more than 1 year at £25 million for 2012/13 and later years.

In accordance with the approved Treasury Management Strategy the Council currently has no investments of more than 364 days.

Appendix C – Performance Monitoring

Treasury Management Update – March 2013

1. Economic Update

- 1.1 Economists have predicted minimal growth for the economy which will result in an avoidance of a triple dip recession.
- 1.2 The Bank of England kept bank base rate at 0.50% and held off more stimulus measures. The market saw gilt yields and sterling dip on raised expectations that further quantitative easing will be announced in the near future.
- 1.3 The UK's sovereign rating was downgraded by Moody's from "Aaa to "Aa1". This downgrade was due to the continuing weakness of the outlook for growth in the UK and the belief that the debt burden will not go into reverse before 2016. There is pressure on the Chancellor to deliver his promises to preserve the "AAA" status as Fitch have since downgraded the UK in April 2013 and the remaining agency, Standard & Poor's, may consider a similar ratings action.

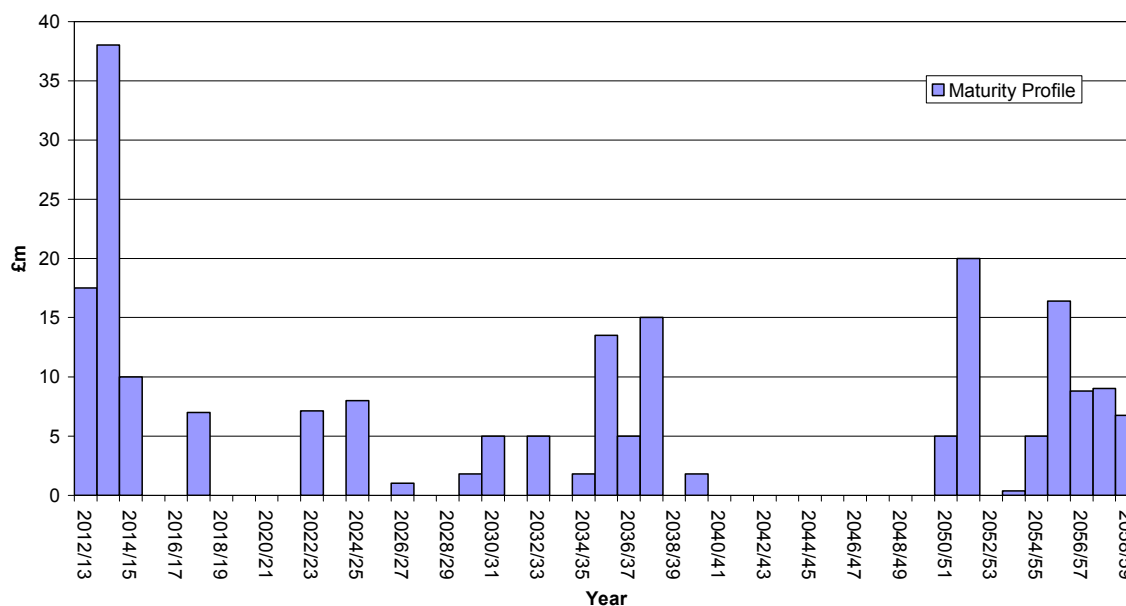
2. Borrowing

- 2.1 It is a statutory duty for the Council to determine and keep under review the "Affordable Borrowing Limits". The Council's approved Prudential Indicators (affordability limits) are outlined in the approved Treasury Management Strategy.
- 2.2 The Council's borrowing as at 31st March was £250.1m. The actual total external debt is measured against the Council's Authorised Limit for borrowing of £536.4m, which must not be exceeded and the Operational Boundary (maximum working capital borrowing indicator) of £443.6m. The table below shows a breakdown of the borrowing:

Borrowing	Amount (£m)	Average Interest Rate
Long Term:		
PWLB	136.4	4.38%
Market Loans	17.5	4.53%
Short Term:		
Local Authorities	55.0	0.40%
Total 'Market' Borrowing	208.9	
PFI & Leases	41.2	
Total Borrowing	250.1	

- 2.3 In 2012/13 the Council has taken out new borrowing of £76.0m of which £75.3m was used to fund the capital programme and £0.7m was used to support short term cash flow fluctuations. The graph below shows the maturity profile of the Council's debt as at 31.03.13:

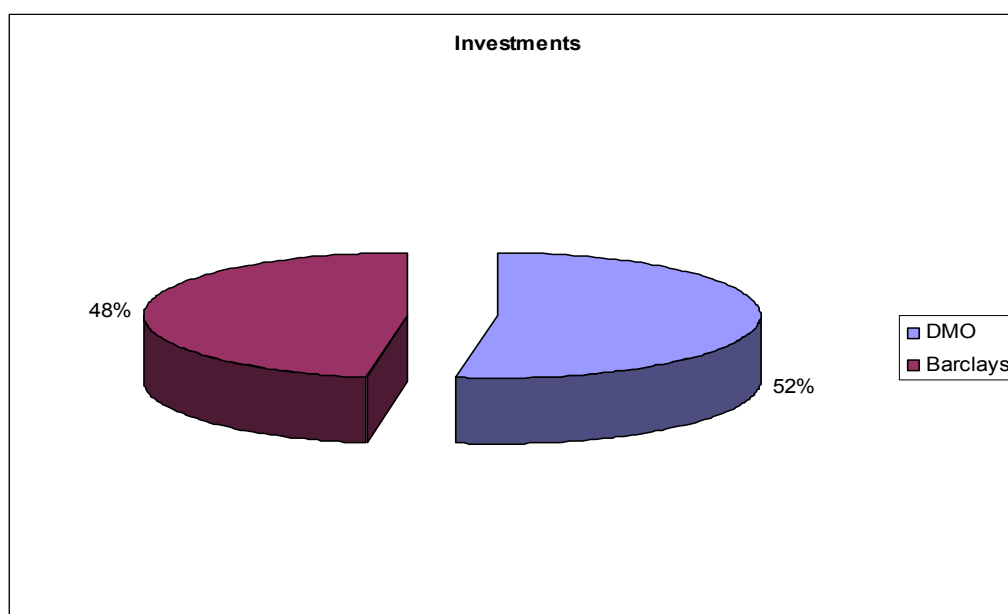
Maturity Profile of all loans



* please note 2012/13 includes £17.5m of market loans which are repayable in the long term but are classed as current year loans due to a recall option in the loan agreement.

3. Investments

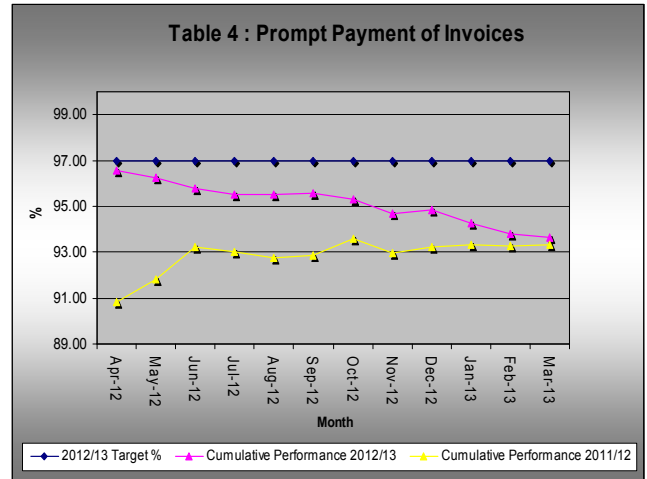
- 3.1 The Council aims to achieve the optimum return (yield) on investments commensurate with the proper levels of security and liquidity. In the current economic climate it is considered appropriate to keep investments short term, and only invest with Barclay's (the Council's current banking provider), the Debt Management Office and Local Authorities.
- 3.2 As at 31st March 2013 the Council's external investments totalled £10.5m and have yielded interest at an average rate of 0.33% in the financial year 2012/13. The graph below shows the split of the investments between counterparties:



3.3 The total investment figure excludes the Icelandic investments. The Council continues to receive dividends from the two Icelandic owned banks that went into administration in October 2008, Heritable Bank and Kaupthing Singer & Friedlander Ltd. The expected recovery rates are 86p to 90p in the pound and 84p to 86.5p in the pound respectively. The required accounting treatment estimates that 82% will be recovered in total. To date the Council has recovered £2.4m of the original £3m investment plus interest claimed. Based on current declared dividends, the council currently expects to receive £2.7m back. The final dividends are expected to be paid in January 2014 for Heritable Bank and June 2015 for KSF.

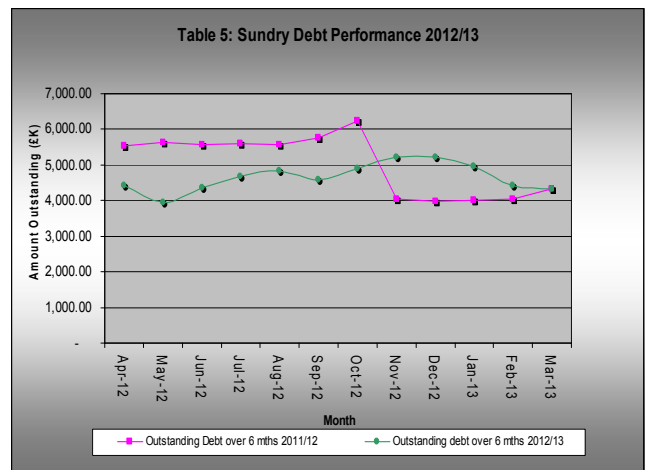
Prompt Payment (Invoices paid within 30 Days)

The cumulative position on prompt payment of invoices as at 31st March 2013 was 93.63% which is 3.37% below the target of 97%. The current year performance is shown alongside the equivalent figures for 2011/12 in table 4. As can be seen the current year, although below target is showing an improvement of 0.30% when compared to the same period for last year.



Sundry Debt Performance

The total outstanding sundry debt in excess of 6 months old as at 31st March 2013 is £4.323m and is set out in table 5 alongside comparative figures for the previous year. This shows a similar year end position to 2011/12.



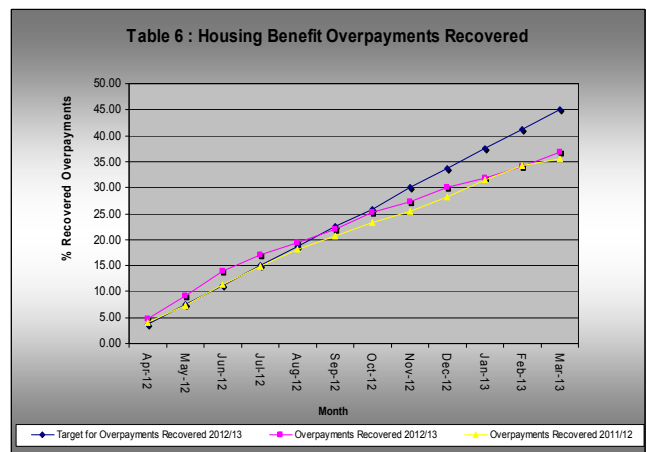
The top 20 debts owed to the Council of the sundry debt and commercial rents portfolio total £4.45m, of which £2.98m is current debt, i.e. up to a month old.

In order to progress action against these debts, bi-monthly review meetings have been set up with each Directorate Head of Finance to discuss issues, disputes and move forward with actions to recover income.

The amount of debt written off for 2012/13 to 31st March 2013 is Nil, however a review of debt is underway to identify debt at risk of none payment.

Housing Benefit Overpayments

Table 6 shows the total amount of housing benefit overpayments recovered against the cumulative target rate set for 2012/13.



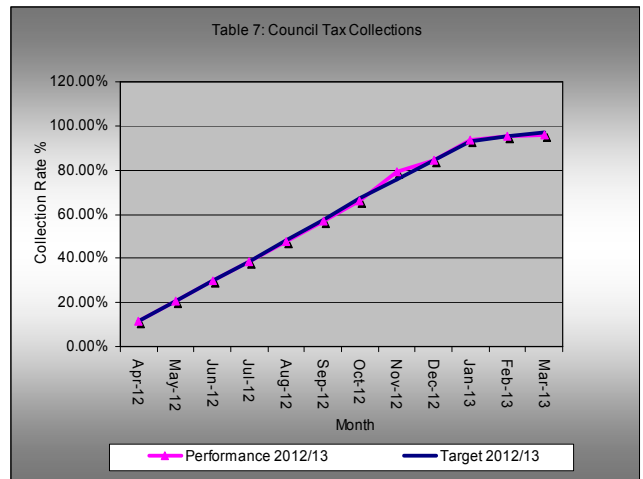
Housing benefit overpayment collection as at the 31st March 2013 was 36.79% which is 8.21% below the target of 45.0% and is 1.19% higher than last years March figure of 35.60%.

Council Tax and Business Rates Collection

The following tables, 7 and 8 show the performance for collection of Council Tax and Business Rates for the period to date.

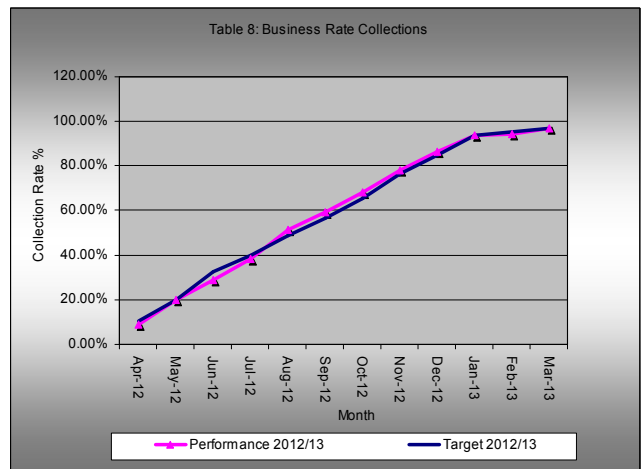
Council Tax

Council Tax collection as at 31st March 2013 (96.15%) is 0.42% up against the same point collected in the previous year (95.73%) but is slightly below the target for 2012/13 (0.6%).



Business Rates

The collection of non Domestic Rates as at 31st March 2013 (97.08%) is 0.71% up against the same point in the previous year (96.37%) and was slightly above the target for 2012/13 (0.33%).



AUDIT COMMITTEE	AGENDA ITEM No. 4
24 JUNE 2013	PUBLIC REPORT

Cabinet Member(s) responsible:	Resources portfolio holder, Cllr Seaton	
Contact Officer(s):	John Harrison, Executive Director Strategic Resources Steven Pilsworth, Head of Corporate Services	Tel. 452398 Tel. 384564

STATEMENT OF ACCOUNTS FOR THE YEAR ENDED 31 MARCH 2012

R E C O M M E N D A T I O N S	
FROM : Executive Director - Strategic Resources	Deadline date : 30 June 2013; <i>statutory deadline for approving Accounts</i>
1. For members to review and comment on the Statement of Accounts prior to the Chief Finance Officer's certification by the 30 June 2013.	

1. ORIGIN OF REPORT

This report forms part of the regular pattern of reporting on the Council's financial position.

2. PURPOSE AND REASON FOR REPORT

- 2.1. The Council must consider and approve its Accounts at a meeting of either the full Council or a Committee of the Council. This is a requirement of the Accounts & Audit Regulations 2011. The Council's Constitution delegates this matter to the Audit Committee.
- 2.2. This is in accordance with the Committees Terms of Reference – 2.2.18 to review the annual statement of accounts, specifically, to consider whether appropriate accounting policies have been followed and whether there are concerns arising from the financial statements or from the audit that need to be brought to the attention of the Council.
- 2.3. The Accounts must be signed and certified by 30 June 2013 by the Council's Section 151 officer (Executive Director Strategic Resources), in accordance with the Accounts and Audit Regulations 2011.
- 2.4. The Council's Section 151 officer has responsibility for certifying that the Accounts present fairly the financial position of the Council at 31 March 2013.
- 2.5. The Audit Committee is required to approve the Accounts no later than 30 September 2013 following, and in the knowledge of, the audit findings.
- 2.6. Whilst under the new regulations the Council's Audit Committee is no longer required to approve the accounts prior to audit, the Council considers it is good practice for members to review and comment on the accounts prior to the Chief Financial Officer's (CFO) certification. The Finance team will continue to review the accounts after Committee agenda despatch, working towards the CFO certification and the start of the audit. If any substantial changes are needed to the Accounts, then an update will be provided to Committee at the meeting.

3. TIMESCALE

Is this a Major Policy Item / Statutory Plan?	NO	If Yes, date for relevant Cabinet Meeting	Not applicable
---	-----------	---	----------------

4. KEY POINTS

- 4.1. The 2012/13 Statement of Accounts is the third set of accounts the Council has produced under International Financial Reporting Standards (IFRS), and there has been relatively few developments in accounting treatment for 2012/13.

Format of the Accounts

- 4.2. The Accounts for 2012/13 conform with CIPFA's (Chartered Institute of Public Finance & Accountancy) Service Reporting Code of Practice for Local Authority Accounts and the Code of Practice on Local Authority Accounting (the Code). The individual financial statements, along with the notes that accompany them, aim to give a full and clear picture of the financial position of the Council.

- 4.3. The key contents of the various sections are as follows:

- *Explanatory Foreword* - provides an understandable guide to the most significant matters reported in the accounts.
- *Statement of Responsibilities* – sets out the responsibilities of the Council and the chief financial officer in respect of the Statement of Accounts
- *Comprehensive Income and Expenditure Statement* – shows the accounting cost in the year of providing services in accordance with generally accepted accounting practices, rather than the amount to be funded from taxation
- *Movement in Reserves Statement* – this statement shows the movement in the year on the different reserves held by the Council
- *Balance Sheet* – shows the value of the assets and liabilities recognised by the Council as at 31 March 2013
- *Cash Flow Statement* – summarises the inflows and outflows of cash, and cash equivalents, arising from transactions with third parties for both revenue and capital purposes in 2012/13
- *Notes to the Financial Statements* - the various statements are supported by technical Notes and by the *Statement of Accounting Policies*
- *The Collection Fund & Notes* – shows the transactions of the Council in relation to Council Tax and National Non-Domestic Rates
- *Statement of Accounting Policies* – outlines the accounting policies adopted by the Council
- *Annual Governance Statement* – identifies the systems that the Council has in place to ensure that its business is conducted in accordance with the law and proper standards and that public money is safeguarded. This statement is an item on this meetings agenda and therefore subject to change, consequently it will be included in the audited accounts, published by 30 September, following its approval.

Comprehensive Income and Expenditure Statement (page 9)

- 4.4. This statement shows the Council's activities and summaries the resources generated, consumed or set aside. It is presented in accordance with the Service Reporting Code of Practice (SeRCOP) to enable comparability between other local authorities and not the Council's organisational structure.

Balance Sheet at 31 March 2013 (page 11)

- 4.5. The Statement of Accounts includes a Balance Sheet that sets out the net worth of the Council at the balance sheet date. The following paragraphs give a high level indication of the reason for movements.
- 4.6. The Revaluation Reserve represents the net movement in the value of fixed assets since 1 April 2007 and it increased by £5.2m during the year.
- 4.7. The Capital Adjustment Account reflects the difference between the cost of fixed assets consumed and the capital financing set aside to pay for them. This account decreased by £62.2m, as charges such as depreciation and impairment were greater than the capital receipts and grants income for the year. Capital expenditure on schools and Academies have not increased the value of the balance sheet by the equivalent amount invested in the developments at these sites.
- 4.8. The Pension Reserve, which balances the Pensions Liability, has increased by £28.2m. This is mainly because of the more unfavourable financial assumptions on 31 March 2013 compared to those at 31 March 2012 used by the actuaries in estimating the liabilities.

Reserves and Balances (Note 17 & 18, pages 29 & 36)

- 4.9. As reported to Council in March 2013, the Executive Director Strategic Resources is charged with considering the level of Reserves and Balances required by the Council and making recommendations as to the adequacy of the amounts held. The closing balance for the General Fund for 2012/13 remains at £6.0m which is consistent with MTFS.

Schools

- 4.10. Details on Schools Balances are shown in Note 17 to the Core Financial Statements in the Accounts. This shows that there was a net decrease in School Balances during 2012/13 of £0.6m from £6.8m to £6.3m.

Collection Fund (page 63)

- 4.11. During 2012/13, Council Tax collection rates had an in year final collection rate of 96.15%.
- 4.12. The 2009 SoRP brought a change of accounting policy with regards to the Collection Fund, such that any surplus or deficit incurred is shown in the Comprehensive Income and Expenditure Statement and the impact of this reversed out through the Movement in Reserves Statement.
- 4.13. For 2012/13 the Collection Fund had a small deficit of £94k (surplus of £134k in 2011/12) for the year of which the Council's share of £78k is shown in the Comprehensive Income and Expenditure Statement.

Next Steps - approval, signing, inspection and audit

- 4.14. The revised Accounts and Audit Regulations 2011, include the following for the approval and publication of the annual accounts:
 - the responsible financial officer must certify the presentation of the annual accounts no later than the 30 June
 - the annual accounts must be published with the audit opinion and certificate, and before that must have been approved by members no later than 30 September

- the responsible financial officer must re-certify the presentation of the annual accounts before member approval is given
- 4.15. The Council considers it is good practice for members to review and comment on the accounts prior to the Chief Finance Officer's certification. The Finance team will continue to review the accounts after Committee agenda despatch, working towards the CFO certification and the start of the audit. If any substantial changes are needed to the Accounts, then an update will be provided to Committee at the meeting.
 - 4.16. Work will continue on reviewing the accounts following Committee, but prior to the start of the audit on 1 July. Any further changes will be cleared by the Chief Finance Officer before certification on 30 June.
 - 4.17. The Auditor will decide the date from which they will receive questions on and objections to the Accounts. The Accounts will be placed on deposit for public inspection for not less than 20 working days before the date set by the Auditor (Regulation 14).
 - 4.18. At the conclusion of the Audit, the Auditor will issue a report on the Financial Statements and will issue the Audit Certificate for 2012/13. This will be considered at the Audit Committee meeting on 23 September 2013.

Appendices

Statement of Accounts 2012/13

5. CONSULTATION

No external consultation has been undertaken.

6. ANTICIPATED OUTCOMES

As set out in the report.

7. REASONS FOR RECOMMENDATIONS

The Accounts and Audit Regulations 2011 require that the Statements of Accounts be prepared to include the statements set out in Regulation 7 and that the signing and approval of the Accounts be undertaken as set out at Regulation 13 of those regulations. Approval of the Accounts is a non-executive function.

8. ALTERNATIVE OPTIONS CONSIDERED

The Accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting (the Code) and hence alternative options are limited.

9. IMPLICATIONS

There are no Human Resource issues arising directly from the recommendations in this report.

10. BACKGROUND DOCUMENTS

- Budgetary control reports through 2012/13
- Council March 2013: Medium Term Financial Strategy
- The Accounts and Audit Regulations (England) 2011, Statutory Instrument

11. APPENDICES

- Statement of Accounts – 2012/13

PETERBOROUGH



CITY COUNCIL

Statement of Accounts

2012/13



For further copies of this document or questions about it please contact:

The Head of Strategic Finance

Peterborough City Council

Town Hall

Bridge Street

Peterborough

PE1 1HG

email: FinanceManagementTeam@peterborough.gov.uk

Tel: 01733 384590

www.peterborough.gov.uk

Peterborough City Council

Statement of Accounts 2012/13

Contents	Page
Explanatory Foreword	1
Independent Auditors' Report to the Members of Peterborough City Council.....	6
Statement of Responsibilities.....	8
Comprehensive Income and Expenditure Statement.....	9
Movement in Reserves Statement	10
Balance Sheet.....	11
Cash Flow Statement.....	12
Notes to the Accounts	13
The Collection Fund and Notes.....	63
Statement of Accounting Policies.....	65
Glossary	82
Index of Notes to the Core Financial Statements.....	87
<u>Annex 1</u>	
Annual Governance Statement	

Explanatory Foreword

1 The Council's Vision and Strategic Priorities

A bigger and better Peterborough that grows the right way *- through truly sustainable development and growth*

is the Council's ambitious vision for the future of Peterborough. Working through the Greater Peterborough Partnership, this vision will:

- Improve the quality of life of all its people and communities, and ensures that all communities benefit from growth and the opportunities it brings
- Create a truly sustainable Peterborough, the urban centre of a thriving sub-regional community of villages and market towns, a healthy, safe and exciting place to live, work and visit, famous as the environment capital of the UK

The Council's four strategic core priorities to deliver this vision:

- Creating the UK's environment capital
- Creating strong and supportive communities
- Creating opportunities – tackling inequalities
- Delivering substantial and truly sustainable growth

Further information is available at both

- Opportunity Peterborough (www.opportunitypeterborough.co.uk),
- The Greater Peterborough Partnership (www.gpp-peterborough.org.uk).

2 The Accounts

This Statement of Accounts has been prepared in accordance with statutory requirements, detailed in the Local Government Act 2003, the Accounts and Audit Regulations 2011 and The Code of Practice on Local Authority Accounting in the United Kingdom 2012/13 (the Code).

The Statement of Accounts brings together the major financial statements for the Council for the financial year 2012/13. The financial statements, along with the notes that accompany them, aim to give a full and clear picture of the financial position of Peterborough City Council. The key contents of the various sections are as follows:

- *Explanatory Foreword*
- *Statement of Responsibilities* – sets out the responsibilities of the Council and the Chief Finance Officer in respect of the Statement of Accounts
- *Comprehensive Income and Expenditure Statement* – shows the accounting cost in the year of providing services in accordance with generally accepted accounting practices, rather than the amount to be funded from taxation
- *Movement in Reserves Statement* – this statement shows the movement in the year on the different reserves held by the Council
- *Balance Sheet* – shows the value of the assets and liabilities recognised by the Council as at 31 March 2013

- *Cash Flow Statement* – summarises the inflows and outflows of cash, and cash equivalents, arising from transactions with third parties for both revenue and capital purposes in 2012/13
- *Notes to the Financial Accounts* - the various statements are supported by technical *Notes* and by the *Statement of Accounting Policies*
- *The Collection Fund and Notes* – shows the transactions of the Council in relation to Council Tax and National Non-Domestic Rates
- *Statement of Accounting Policies* – outlines the accounting policies adopted by the Council

3 Revenue Expenditure

The Comprehensive Income and Expenditure Statement (CIES) on page 9 shows the gross revenue expenditure and income together with net expenditure for 2012/13 compared with 2011/12 equivalents. The CIES is analysed by services as laid down in the Service Reporting Code of Practice (SeRCOP) issued by the Chartered Institute of Public Finance and Accountancy (CIPFA).

The Council's organisational structures, on which the estimates for the year and budget monitoring during the year are based, do not correlate directly with SeRCOP. However, Note 16 page 25, demonstrates the presentational differences between these reporting requirements.

The Council monitors its spending against budget regularly throughout the financial year and reports projected variances to the Cabinet. These reports are based on the Council's organisational structure.

Budget managers receive detailed budgetary control information each month and most have access to online computerised systems. At departmental level, a monthly report on the budgetary control position for the relevant services is reviewed by each Departmental Management Team.

The following table compares the budget to the actual net expenditure based upon the Council's organisational structure. Figures in brackets indicate a favourable variance.

Revenue Expenditure	Budget £000	Actual £000	Variance £000
Chief Executive Office	7,954	6,972	(982)
Children's Services	31,044	31,966	922
Operations	20,601	20,537	(64)
Strategic Resources	43,775	43,764	(11)
Adult Social Care	47,052	47,052	-
Total Council Expenditure	150,426	150,291	(135)
Transfer to earmarked reserve			135
Contribution to General Fund Balance			-
General Fund Balance Brought Forward			6,000
General Fund Balance Carried Forward			6,000

The financing of the budget was as follows:

Financed by	£000
Government Grant (Revenue Support Grant)	1,409
Distribution from National Non Domestic Rates	72,674
Demand on the Collection Fund	64,322
Reserves	12,021
Total Financing	150,426

Significant pressures in Children Services were mostly offset by savings elsewhere as a result of positive management

action, and overall the Council underspent against budget by £135k.

Balances

At 31 March 2013, the General Fund working balance of the Council stood at £6m which is in line with the Medium Term Financial Strategy (MTFS).

In addition the Schools balances totalled £6.3m at 31 March 2013, compared to £6.8m at 31 March 2012.

4 Capital Expenditure

The main elements of capital expenditure, compared with the revised February 2013 budget after slippage, are shown below.

Capital Expenditure	Budget per MTFS 2012 Approved Budget	2012/13 Budget inc. slippage from 2011/12	Revised Budget at February 2013	Outturn
	£000	£000	£000	£000
Adult Social Care	3,769	4,524	1,901	1,395
Chief Executives	13,490	14,517	4,606	2,850
Children's Services	72,911	72,911	78,757	76,584
Operations	19,431	20,529	17,271	14,225
Strategic Resources	134,978	139,337	19,768	16,679
Total	244,579	251,818	122,303	111,733
Financed by:				
External Sources	33,676	35,232	39,012	31,415
Capital Receipts	15,495	15,495	5,332	5,059
Borrowing	195,408	201,091	77,959	75,259
Total	244,579	251,818	122,303	111,733

The Capital Expenditure was funded by a mixture of grants, contributions, capital receipts and borrowing.

5 External Borrowings and Investments

At 31 March 2013 the Council had net borrowings including cash and outstanding interest of £199.9m (£140.5m in 2011/12).

2011/12		2012/13
£m		£m
29.2	Short Term Borrowing	57.3
115.4	Long Term Borrowing	153.4
(4.1)	Investments	(10.8)
140.5	Net Borrowing	199.9

6 Change in Accounting Policies

Where the Council uses depreciated replacement cost as a basis for valuations eg the theatre, libraries and schools, the 'instant build' approach is now used. This means that finance costs are excluded from the valuation, see Note 48 for further information.

7 Changes to Service Delivery and Future Developments

In February 2013 the Council entered into a contract with Virridor to build an 'energy from waste' facility. The facility will be built close to the power station in Fengate, and designed to meet the city's needs for the next 30 years. The facility will use heat to turn any waste, that can not be recycled, into ash and will save over 10,000 tonnes of CO₂ every year compared to sending the city's waste to landfill.

During the year the Council has continued to develop its role as an Environment Capital. It has led on a successful energy switching scheme helping residents obtain cheaper energy tariffs, and further developed its proposals for wind and solar farms which will generate income to support future Council services. In March 2013 the Council entered into a strategic partnership with British Gas to tackle fuel poverty in the city. This landmark programme will see British Gas upgrading energy inefficient homes through various measures such as cavity wall insulation and double glazing.

In terms of future service delivery the Government announced that from 1 April 2013 the responsibility for public health transferred from the NHS to the Council. The types of services which will be provided by the Council from 2013/14 include sexual health, drug and alcohol treatment, school nursing, and giving up smoking services. The Council will receive a grant from the Department of Health of £8.4m to provide these services.

Future funding of the Council through the Business Rates Retention scheme is a further significant change for 2013/14. The new funding arrangement will see the Council retain 49% of locally collected business rates, rather than paying 100% to central government and receiving a share back of the national pool, based on a formula, as is the case in 2012/13 and previous years. This new arrangement will now expose the Council to the risk of volatility in business rate income throughout the year.

8 Pensions

The main statements include entries to show the financial position of the Council's share of the Cambridgeshire Pension Fund. This information has been compiled by the Fund's actuary in accordance with International Accounting Standard 19: Employee Benefits (IAS19).

Based on the information supplied by the actuary in compliance with IAS19, the calculated deficit on the Fund has increased during 2012/13, from £187.3m in 2011/12 to £215.5m. The change of £28.2m is largely a result of falling bond yields although this has been offset by higher than expected investment performance. Further details can be found in Note 7.

The future year's employers' contributions are factored in to Medium Term Financial Strategy (MTFS) and refreshed annually.

The Council's employer's contribution to the Fund was maintained at 17.6% in 2012/13 based on the advice from the independent Actuary. This percentage was reviewed as part of the triennial actuarial valuation during 2010. The next valuation is expected in late 2013, which will take effect 1 April 2014. Future contributions will depend on demographic factors, investment returns, and changes in the legislation which governs the scheme.

9 Related Parties

The Council is required to disclose material transactions with related parties; bodies or individuals that have the potential to control or influence the Council or be controlled or influenced by the Council. These disclosures can be found in Notes 14

and 15, and also on the Council's website in the Register of Interests for each Councillor.

10 External Auditors

The Council's auditors are PricewaterhouseCoopers. The duty to appoint auditors to local government is an Audit Commission core statutory function. Whilst in July 2011 Ministers agreed to the abolition of the Audit Commission, the body undertook a procurement exercise in March 2012 and it has been confirmed that PricewaterhouseCoopers will continue to be the Council's external auditors until 2017/18. See Note 3 for further information on external audit fees.

11 Conclusion

The Statement of Accounts includes a great deal of information on the financial activities of the Council and provides a good insight into its workings.

The Council approved the revenue and capital budget requirement for 2012/13 in February 2012 Medium Term Financial Strategy (MTFS). It forecast that at the same time the Council was experiencing unprecedented reductions in funding it was also experiencing significant increases in costs, with demand pressures existing in both Adult Social Care and Children Services budgets, and incurring costs associated with implementing the infrastructure required to support growth and regeneration.

During the year the Council has closely monitored and assessed the impact of these forecasted pressures, and implemented various management actions in order to control

the emerging in year pressures, whilst delivering savings as outlined in the MTFS. Such actions include spend only on business critical activities, implementation of robust panel process for accessing Adult and Children social care placements, and the re-profiling of capital investments.

The proactive style of financial management at the Council has resulted in a forecast overspend being reduced to a small underspend for the year of £135k, which has increased the Council's reserves. However, the Council is acutely aware that it can not be complacent in managing its financial resources given the deficits forecast in future years, the continued impact of the challenging economic climate and the requirement to ensure value for money is achieved across all of its services. As such the Council's approach remains founded on the basis of the Council being efficient, effective and accessible. The MTFS is based on the philosophy of:

"Minimising overheads, reducing bureaucracy and improving value for money to ensure that resources are available to improve front line service outcomes to the community whilst ensuring the impact on council tax levels is as low as possible".

I am extremely grateful to all the finance staff across the Council for the support and enthusiasm which they have brought to the many and challenging tasks they have faced.

I hope readers will find the following pages helpful and interesting in providing an insight into the finances of the Council.

John Harrison
Executive Director Strategic Resources

Independent Auditor's Report to the Members of Peterborough City Council

Opinion on the financial statements

Page will be updated with the audit report following completion of the external audit – September 2013

31

Signed: _____

Date: _____

Julian Rickett (Senior Statutory Auditor)
For and on behalf of PricewaterhouseCoopers LLP
Appointed Auditors
The Atrium, St Georges Street, Norwich, NR3 1AG

Conclusion on arrangements for securing economy, efficiency and effectiveness in the use of resources.

Page will be updated with audit report following completion of external audit – September 2013.

Signed: _____

Date: _____

Julian Rickett (Senior Statutory Auditor)
For and on behalf of PricewaterhouseCoopers LLP
Appointed Auditors
The Atrium, St Georges Street, Norwich, NR3 1AG

Statement of Responsibilities

The Council's Responsibilities

The Council is required to:

- make arrangements for the proper administration of its financial affairs and to secure that one of its officers (the Chief Financial Officer) has the responsibility for the administration of those affairs. In this Council, that officer is the Executive Director - Strategic Resources;
- manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets; and
- approve the Statement of Accounts.

Chairman's Certificate

I certify that the Statement of Accounts for the year ended 31 March 2013 was approved at the meeting of the Audit Committee on 23 September 2013.

Signed on behalf of Peterborough City Council:

Chairman of meeting
approving the accounts:

*Note – not be signed until
September 2013*

Date:

The Chief Financial Officer's Responsibilities

The Chief Financial Officer is responsible for the preparation of the Council's Statement of Accounts in accordance with proper practices as set out in the CIPFA / LASAAC Code of Practice on Local Council Accounting in the United Kingdom (the Code).

In preparing this Statement of Accounts, the Chief Financial Officer has:

- selected suitable accounting policies and then applied them consistently
- made judgements and estimates that were reasonable and prudent
- complied with the local authority Code

The Chief Financial Officer has also:

- kept proper accounting records which were up to date
- taken reasonable steps for the prevention and detection of fraud and other irregularities.

Chief Financial Officer's Certificate

I certify that the accounts set out on pages 9 to 81 present a true and fair view of the financial position of the Council at 31 March 2013 and its income and expenditure for the year ended 31 March 2013.

Executive Director
Strategic Resources:

Date:

June 2013

Comprehensive Income and Expenditure Statement (CIES)

This statement shows the accounting cost in the year of providing services in accordance with generally accepted accounting practices, rather than the amount to be funded from taxation.

Councils raise taxation to cover expenditure in accordance with regulations; this may be different from the accounting cost. The taxation position is shown in the Movement in Reserves Statement.

<i>Restated 2011/12</i>			Comprehensive Income & Expenditure Statement (CIES)				2012/13		
<i>Gross Expenditure</i>	<i>Gross Income</i>	<i>Net Expenditure</i>		<i>Notes</i>	Gross Expenditure	Gross Income	Net Expenditure		
<i>£000</i>	<i>£000</i>	<i>£000</i>			£000	£000	£000		
2,509	(662)	1,847	Central Services to the Public		1,194	(533)	661		
444	-	444	Court Services		422	-	422		
12,255	(743)	11,512	Cultural & Related Services		11,379	(595)	10,784		
220,946	(175,598)	45,348	Education & Children's Services	1, 6	278,404	(166,650)	111,754		
15,669	(6,095)	9,574	Environmental & Regulatory Services		20,085	(5,903)	14,182		
24,713	(6,981)	17,732	Highways & Transport Services		26,274	(6,809)	19,465		
92,501	(84,433)	8,068	Other Housing Services		97,524	(90,445)	7,079		
11,805	(3,569)	8,236	Planning Services		11,502	(6,391)	5,111		
57,862	(10,985)	46,877	Adult Social Care	2, 6	74,433	(22,094)	52,339		
3,292	(1,191)	2,101	Corporate & Democratic Core	3, 4	3,117	(1,201)	1,916		
-	(3,117)	(3,117)	Non Distributed Costs		-	(4,589)	(4,589)		
441,996	(293,374)	148,622	Cost of Services	16	524,334	(305,210)	219,124		
11,972	(5,899)	6,073	Other Operating Expenditure	9	5,803	(4,081)	1,722		
25,045	(6,290)	18,755	Financing & Investment Income & Expenditure	10,11	24,667	(7,027)	17,640		
-	(176,239)	(176,239)	Taxation & Non-Specific Grant Income	12, 13	-	(168,507)	(168,507)		
479,013	(481,802)	(2,789)	(Surplus) / Deficit on Provision of Services	16	554,804	(484,825)	69,979		
		(29,262)	Surplus on Revaluation of Non-Current Assets	17,19			(9,153)		
		42,243	Actuarial (Gains) / Losses on Pension Assets / Liabilities	7			27,630		
		12,981	Other Comprehensive Income & Expenditure				18,477		
		10,192	Total Comprehensive Income & Expenditure				88,456		

Movement in Reserves Statement

This statement shows the movement in the year on the different reserves held by the Council, analysed into 'usable reserves' (ie. those that can be applied to fund expenditure or reduce local taxation) and other reserves. The Surplus or Deficit on the Provision of Services line shows the true cost of providing the Council's services, more details of which are shown in the Comprehensive Income and Expenditure Statement, page 9.

These are different from the statutory amounts required to be charged to the General Fund Balance for council tax setting purposes. The Net Increase or Decrease before Transfers to Earmarked Reserves line shows the statutory General Fund Balance before any discretionary transfers to or from earmarked reserves undertaken by the Council, for further, more detailed movements, see Note 17.

Movement in Reserves during 2011/12 and 2012/13	Notes	General Fund Balance	Schools' Balances	Earmarked General Fund Reserves	Capital Receipts Reserve	Capital Grants Unapplied Account	Total Usable Reserves	Unusable Reserves	Total Council Reserves
	17	£000	£000	£000	£000	£000	£000	£000	£000
<i>Restated Balance at 1 April 2011</i>		6,000	6,749	17,038	-	4,964	34,751	104,580	139,331
<i>Deficit / (Surplus) on Provision of Services</i>		2,689	100	-	-	-	2,789	-	2,789
<i>Other Comprehensive Income & Expenditure</i>		-	-	-	-	-	-	(12,981)	(12,981)
Total Comprehensive Income & Expenditure		2,689	100	-	-	-	2,789	(12,981)	(10,192)
<i>Adjustments between accounting basis & funding basis under regulations</i>		(2,747)	-	-	-	(3,235)	(5,982)	5,982	-
Net Increase / Decrease before Transfers to Earmarked Reserves		(58)	100	-	-	(3,235)	(3,193)	(6,999)	(10,192)
<i>Transfers to / (from) Reserves</i>		58	-	(58)	-	-	-	-	-
Increase / (Decrease) in 2011/12		-	100	(58)	-	(3,235)	(3,193)	(6,999)	(10,192)
Restated Balance at 31 March 2012 Carried Forward		6,000	6,849	16,980	-	1,729	31,558	97,581	129,139
Restated Balance at 1 April 2012		6,000	6,849	16,980	-	1,729	31,558	97,581	129,139
<i>Deficit / (Surplus) on Provision of Services</i>		(69,425)	(554)	-	-	-	(69,979)	-	(69,979)
<i>Other Comprehensive Income & Expenditure</i>		-	-	-	-	-	-	(18,477)	(18,477)
Total Comprehensive Income & Expenditure		(69,425)	(554)	-	-	-	(69,979)	(18,477)	(88,456)
<i>Adjustments between accounting basis & funding basis under regulations</i>		67,749	-	-	-	(287)	67,462	(67,462)	-
Net Increase before Transfers to Earmarked Reserves		(1,676)	(554)	-	-	(287)	(2,517)	(85,939)	(88,456)
<i>Transfers to / (from) Reserves</i>		1,676	-	(1,676)	-	-	-	-	-
Increase / (Decrease) in 2012/13		-	(554)	(1,676)	-	(287)	(2,517)	(85,939)	(88,456)
Balance at 31 March 2013 Carried Forward		6,000	6,295	15,304	-	1,442	29,041	11,642	40,683

Balance Sheet

The Balance Sheet shows the value as at the Balance Sheet date of the assets and liabilities recognised by the Council. The net assets of the Council (assets less liabilities) are matched by the reserves held by the Council. Reserves are reported in two categories. The first category of reserve are usable reserves, ie those reserves that the Council may use to provide services, subject to the need to maintain a prudent level of reserves and any statutory limitations on their use (for example the Capital Receipts Reserve may only be used to fund capital expenditure or repay debt). The second category of reserves is those that the Council is not able to use to provide services. This category of reserves includes the reserves that hold unrealised gains and losses (for example the Revaluation Reserve), where amounts would only become available to provide services if the assets are sold; and reserves that hold timing differences shown in the Movement in Reserves Statement, page 10, line 'Adjustments between accounting basis and funding basis under regulations'.

<i>Restated 1 April 2011 £000</i>	<i>Restated 31 March 2012 £000</i>	Balance Sheet	Notes	31 March 2013 £000
434,180	498,793	Property, Plant & Equipment	19	507,118
40,012	33,826	Investment Property	20	35,208
2,538	2,148	Intangible Assets	21	3,208
457	158	Long Term Investments	29	143
2,334	2,353	Long term Debtors	29, 30	2,332
479,521	537,278	Long Term Assets		548,009
449	438	Short Term Investments	29	141
484	385	Inventories	32	341
48,636	47,431	Short Term Debtors	33	46,055
15,634	3,270	Cash & Cash Equivalents	41	754
-	-	Current Intangible Asset	34	5
6,146	2,300	Assets Held for Sale	22	435
71,349	53,824	Current Assets		47,731
(20,883)	(29,213)	Short Term Borrowing	29	(57,327)
(57,520)	(65,494)	Short Term Creditors	35	(67,134)
(1,492)	(2,242)	Provisions	37	(2,810)
(79,895)	(96,949)	Current Liabilities		(127,271)
(145,349)	(187,284)	Long Term Creditors	7	(215,515)
(1,611)	(1,478)	Provisions	37	(654)
(115,387)	(115,387)	Long Term Borrowing	29	(153,387)
(43,688)	(43,445)	Other Long Term Liabilities	27, 28, 29, 30	(42,610)
(25,609)	(17,420)	Capital Grants Receipts in Advance	36	(15,620)
(331,644)	(365,014)	Long Term Liabilities		(427,786)
139,331	129,139	Net Assets		40,683
(34,751)	(31,558)	Usable Reserves	17	(29,041)
(104,580)	(97,581)	Unusable Reserves	17	(11,642)
(139,331)	(129,139)	Total Reserves		(40,683)

Cash Flow Statement

The Cash Flow Statement shows the changes in cash and cash equivalents of the Council during the reporting period. The statement shows how the Council generates and uses cash and cash equivalents by classifying cash flows as operating, investing and financing activities. The amount of net cash flows arising from operating activities is a key indicator of the extent to which the operations of the Council are funded by way of taxation and grant

income or from the recipients of services provided by the Council. Investing activities represent the extent to which cash outflows have been made for resources which are intended to contribute to the Council's future service delivery. Cash flows arising from financing activities are useful in predicting claims on future cash flows by providers of capital (i.e. borrowing) to the Council.

2011/12 £000	Cash Flow Statement	Notes	2012/13 £000
(2,789)	Net (Surplus) / Deficit on the Provision of Services		69,979
(33,400)	Adjust net (Surplus) / Deficit on the Provision of Services for Non Cash Movements		(71,993)
(20,845)	Adjust for Items Included in the Net (Surplus) / Deficit on the Provision of Services that are Investing & Financing Activities		(36,738)
(57,034)	Net Cash Flows from Operating Activities		(38,752)
69,301	Investing Activities	39	97,890
97	Financing Activities	40	(56,622)
12,364	Net (Increase) / Decrease in Cash & Cash Equivalents		2,516
15,634	Cash & Cash Equivalents at the Beginning of the Reporting Period		3,270
(12,364)	Increase / (Decrease) in Cash and Cash Equivalents		(2,516)
3,270	Cash & Cash Equivalents at the end of the Reporting Period	41	754

Notes to the Accounts

1 Dedicated Schools Grant

Details of the deployment of DSG receivable for 2012/13 and for the previous financial year, 2011/12 follows:

Schools Budget Funded by Dedicated Schools Grant	Central Expenditure £000	ISB £000	Total £000
Final DSG for 2012/13 before Academy recoupment			(149,212)
Academy figure recouped for 2012/13			29,829
Total DSG after Academy recoupment for 2012/13			(119,383)
Brought forward from 2011/12			(936)
Carry forward to 2013/14 agreed in advance			1,342
Agreed initial budgeted distribution in 2012/13	(17,359)	(101,618)	(118,977)
In year adjustments	-	-	-
Final budgeted distribution for 2012/13	(17,359)	(101,618)	(118,977)
Less actual central expenditure	17,803	-	17,803
Less actual ISB deployed to schools	-	101,618	101,618
Plus Council contribution for 2012/13	-	-	-
Carry Forward to 2013/14	444	-	444
Total amount carried forward			(898)

The Council's expenditure on schools is funded primarily by grant monies provided by the Department for Education, the Dedicated Schools Grant (DSG). An element of DSG is recouped by the Department to fund academy schools in the Council's area. DSG is ring-fenced and can only be applied to meet expenditure properly included in the Schools Budget, as defined in the School Finance (England) Regulations 2011. The Schools Budget includes elements for a range of

educational services provided on a Council-wide basis and for the Individual Schools Budget (ISB), which is divided into a budget share for each maintained school.

Schools Budget Funded by Dedicated Schools Grant	Central Expenditure £000	ISB £000	Total £000
Final DSG for 2011/12 before Academy recoupment			(124,491)
Academy adjustment for 2011/12			(6,139)
Total DSG after Academy recoupment for 2011/12			(130,630)
Brought forward from 2010/11			(497)
Carry forward to 2012/13 agreed in advance			276
Agreed initial budgeted distribution in 2011/12	(15,752)	(115,099)	(130,851)
In year adjustments	-	-	-
Final budgeted distribution for 2011/12	(15,752)	(115,099)	(130,851)
Less Actual central expenditure	15,092	-	15,092
Less Actual ISB deployed to schools	-	115,099	115,099
Plus Council contribution for 2011/12	-	-	-
Carry Forward to 2012/13	(660)	-	(660)
Total amount carried forward			(936)

2 Pooled Funds

The Council has two separate Pooled Partnership formed under Section 75 (S75) of the National Health Service Act 2006. The Council is lead commissioner and integrated provider of Health and Social Care Services for adults with learning disabilities in associated with NHS Peterborough. The other partnership arrangement is with Cambridgeshire and Peterborough Foundation Trust (CPFT) for Mental Health Services.

Learning Disability Services

The annual agreement for 2012/13 sets out the Council's contribution to the Pool, the level of performance that the Council aims to deliver across a range of performance indicators and key service developments that the Council will take forward. Activity for this partnership is shown in the Adult Social Care line in the Comprehensive Income and Expenditure Statement of £0.9m following the exclusion of transferred items associated with 'Valuing People Now' (original S75 £4.92m).

Mental Health Services

The Council has continued to honour a previous Section 75 agreement with CPFT for the provision of Mental Health Services. The Council's contribution to this Pooled Partnership of £1.28m is shown in the Adult Social Care line in the Comprehensive Income and Expenditure Statement.

3 External Audit Costs

The Council has incurred the following cost in relation to the audit of the Statement of Accounts, certification of grant claims and to non-audit services provided by the Council's external auditors, PricewaterhouseCoopers LLP.

2011/12 £000	External Audit Costs	2012/13 £000
239	Fees payable with regard to external audit services carried out by the appointed auditor	164
45	Fees payable for the certification of grant claims & returns carried out by the appointed auditor *	22
3	Fees payable in respect of other services provided by the appointed auditor	-
287	Total	186

* The 2011/12 figure stated for Fees payable in relation to the certification of grant claims and returns was estimated. The actual amount was £36,300.

4 Members Allowances

The following amounts were paid to members of the Council.

2011/12 £000	Members Allowances	2012/13 £000
708	Allowances	689
1	Expenses	-
709	Total	689

5 Termination Benefits and Exit Packages

The Council terminated the contracts of a number of employees as part of the voluntary redundancy programme in 2012/13, incurring liabilities of £4.3m (£2.2m 2011/12). These costs include voluntary and compulsory redundancy costs, pension strain and other departure costs.

The costs include those paid and those provided for in the year, see Note 37 for details of the redundancy provision. The costs were charged to the Comprehensive Income and Expenditure Statement as shown in the table below:

2011/12 £000		2012/13 £000
	Termination Benefits	£000
165	Central Services to the Public	30
88	Cultural & Related Services	9
1,146	Education & Children's Services	1,119
62	Environmental & Regulatory Services	24
130	Highways & Transport Services	26
2	Other Housing Services	18
93	Planning Services	111
22	Adult Social Care	2,929
87	Corporate & Democratic Core	-
14	Trading Operations	5
342	Support Services (<i>recharged to the services</i>)	76
2,151	Total	4,347

The numbers of packages agreed and the value of those packages are analysed below, in bands of £20k up to £100k and bands of £50k thereafter.

Termination and Exit Packages 2012/13							
Compulsory No.	Voluntary No.	Total No.	Bands	Compulsory £00	Voluntary £000	Total £000	Pension Strain inc. in total *
-	47	47	£20,000 - £39,999	-	1,360	1,360	156
-	21	21	£40,000 - £59,999	-	1,013	1,013	89
-	1	1	£60,000 - £79,999	-	63	63	25
-	2	2	£80,000 - £99,999	-	168	168	15
-	2	2	£100,000 - £149,999	-	225	225	69
-	1	1	£200,000 - £250,000	-	208	208	158
7	205	212	Total	64	4,283	4,347	526

Termination and Exit Packages 2011/12							
Compulsory No.	Voluntary No.	Total No.	Bands	Compulsory £00	Voluntary £000	Total £000	Pension Strain inc. in total *
-	38	38	£20,000 - £39,999	-	1,092	1,092	140
-	5	5	£40,000 - £59,999	-	253	253	45
-	3	3	£60,000 - £79,999	-	185	185	70
-	2	2	£80,000 - £99,999	-	181	181	77
1	121	122	Total	1	2,150	2,151	366

* Pension Strain included in total is the amount paid to the Local Government Pension Scheme, see Note 7 for further information

6 Pension Schemes Accounted for as Defined Contribution Schemes

Teachers Pension Scheme

Teachers employed by the Council are members of the Teachers' Pension Scheme, administered by the Department for Education. The Scheme provides teachers with specified benefits upon retirement, and the Council contributes towards the cost by making contributions based on a percentage of members' pensionable salaries through the DSG allocation (Note 1).

The Scheme is technically a defined benefit scheme. However, the Scheme is unfunded and the Department for Education uses a notional fund as the basis for calculating the employers' contribution rate paid by local authorities. The Council is not able to identify its share of underlying financial position and performance of the Scheme with sufficient reliability for accounting purposes. For the purposes of this Statement of Accounts, it is therefore accounted for on the same basis as a defined contribution scheme.

In 2012/13 the Council paid £5.9m to Teachers' Pension in respect of teachers' retirement benefits, representing 14.1% of pensionable pay. The figures for 2011/12 were £6.4m and 14.1%. The contributions reduced between years as a secondary and a primary school have transferred to Academy status during 2012/13. There were no contributions remaining payable at the year-end.

The Council is responsible for the costs of any additional benefits awarded upon early retirement outside of the terms of the teachers' scheme. These costs are accounted for on a defined benefit basis and detailed in Note 7.

NHS Pension Scheme

This scheme applies to some of the former employees of the Pooled Partnership with NHS Peterborough for the delivery of Adult Social Care services. Present employees are covered by the provisions of the NHS Pension Scheme. Details of the benefits payable under these provisions can be found on the NHS Pensions website at www.nhsbsa.nhs/pensions.

The scheme is an unfunded, defined benefit scheme that covers NHS employers, GP practices and other bodies, allowed under the direction of the Secretary of State, in England and Wales. The scheme is not designed to be run in a way that would enable participating bodies to identify their share of the underlying scheme assets and liabilities. Therefore, the scheme is accounted for as if it were a defined contribution scheme: the cost to the Council of participating in the scheme is taken as equal to the contributions payable to the scheme for the accounting period.

7 Defined Benefit Pension Schemes

Participation in pension schemes

As part of the terms and conditions of employment of its officers, the Council makes contributions towards the costs of post employment benefits. Although these benefits will not actually be payable until employees retire, the Council has a commitment to make the payments that needs to be disclosed at the time that employees earn their future entitlement.

The Council participates in the Local Government Pension Scheme (LGPS), administered by Cambridgeshire County Council. This is a funded defined benefit final salary scheme, meaning that the Council and employees pay contributions into

a fund, calculated at a level intended to balance the pensions liabilities with investment assets.

Transactions relating to post employment benefits

The cost of retirement benefits is reported in the cost of services when they are earned by employees, rather than when the benefits are eventually paid as pensions. However, the charge which is required to be made against Council Tax is based on the cash payable in the year, so the real cost of post employment / retirement benefits is reversed out of the General Fund via the Movement in Reserves Statement. The following transactions have been made in the Comprehensive Income and Expenditure Statement and the General Fund Balance via the Movement in Reserves Statement during the year:

Impact of the Revised Standard

The figures in this note are based on the current version of International Accounting Standard for Employee Benefits (IAS19). Changes to IAS19 come into effect for the financial year to 31 March 2014. The changes will be adopted retrospectively for the prior year, in accordance with International Accounting Standard for Accounting Policies, changes in Accounting Estimates and Errors (IAS8). The effect of the change to IAS19 on the income and expenditure statement to 31 March 2013 will be an increase of £2.2m. This will be disclosed in the report covering the year to 31 March 2014.

2011/12 £000	Comprehensive Income and Expenditure Statement	2012/13 £000
	Cost of Services:	
10,512	Current service cost	10,051
(2,413)	Past service cost	-
(506)	Curtailment and Settlement	(3,178)
	Financing & Investment Income & Expenditure	
22,359	Interest cost (Note 10)	22,211
(17,874)	Expected return on scheme assets (Note 10)	(15,691)
<u>12,078</u>	Total post employment benefit charged to the Deficit / (Surplus) on the Provision of Services	<u>13,393</u>
	Other employment benefit charged to the Comprehensive Income and Expenditure Statement	
42,243	Actuarial losses / (gains)	27,630
<u>54,321</u>	Total post employment benefit charged to the Comprehensive Income and Expenditure Statement	<u>41,023</u>
	Movement in Reserves Statement	
	Reversal of net charges made to the (Surplus) / Deficit on the Provision of Services for post employment benefits in accordance with the code	
(54,321)		(41,023)
	Actual amount charged against the General Fund Balance for pensions in the year:	
12,386	Employer's contributions payable to scheme	12,792
<u>(41,935)</u>	Total Movement in Reserves Statement	<u>(28,231)</u>

The cumulative amount of actuarial gains and losses recognised in the Comprehensive Income and Expenditure Statement to 31 March 2013 is a loss of £217.9m and at 31 March 2012 was a loss of £190.3m which has built up from 1st April 2004.

Assets and liabilities in relation to post employment benefits

31 March 2012 £000	Reconciliation of Present Value of Scheme Liabilities (defined benefit obligation)	31 March 2013 £000
407,309	Opening Liability at 1 April	465,018
10,512	Current Service Cost	10,051
22,359	Interest Cost	22,211
3,629	Contributions by Scheme Participants	3,232
25,111	Actuarial Losses / (Gains)	53,933
964	Losses on Curtailments (excluding settlement amounts)	319
(4,569)	Liabilities Extinguished on Settlements	(4,160)
(2,413)	Past Service Costs	-
12,290	Liabilities Assumed on a Business Combination	-
(10,174)	Benefits Paid	(10,398)
465,018	Closing Liability at 31 March	540,206

31 March 2012 £000	Reconciliation of the Fair Value of the Scheme Assets	31 March 2013 £000
261,960	Opening Value at 1 April	277,734
17,874	Expected Rate of Return on Assets	15,691
(17,132)	Actuarial (Losses) / Gains	26,303
(3,099)	Assets Distributed on Settlements	(663)
12,386	Employer Contributions	12,792
3,629	Contributions by Scheme Participants	3,232
12,290	Assets Acquired in a Business Combination	-
(10,174)	Benefits Paid	(10,398)
277,734	Closing Fair Value of Scheme Assets at 31 March	324,691

The expected return on scheme assets is determined by considering the expected returns available on the assets underlying the current investment policy. Expected yields on

fixed interest investments are based on gross redemption yields as at the Balance Sheet date. Expected returns on equity investments reflect long-term real rates of return experienced in the respective markets.

The actual return on scheme assets in the year was £42m (2011/12 £0.8m).

Scheme history

Local Government Pension Scheme	2008/09 £000	2009/10 £000	2010/11 £000	2011/12 £000	2012/13 £000
Present Value of Liabilities	270,081	480,626	407,309	465,018	540,206
Fair Value of Assets in the Scheme	(178,074)	(249,867)	(261,960)	(277,734)	(324,691)
Deficit in scheme	92,007	230,759	145,349	187,284	215,515

The liabilities show the underlying commitments that the Council has in the long run to pay post employment (retirement) benefits. The total liability of £215.5m has a substantial impact on the net worth of the Council as recorded in the Balance Sheet, see Note 17, page 34. However, statutory arrangements for funding the deficit mean that the financial position of the Council remains healthy.

The deficit on the local government scheme will be made good by increased contributions over the remaining working life of employees (i.e. before payments fall due), as assessed by the scheme actuary.

The total contributions expected to be made to the Local Government Pension Scheme by the Council in the year to 31 March 2014 is £8.8m.

Basis for estimating assets and liabilities

The principal assumptions used by the actuary have been:

31 March 2012		31 March 2013
Long-term expected rate of return on assets in the scheme		
6.3%	Equity Investments	4.5%
3.3%	Bonds	4.5%
4.4%	Property	4.5%
3.5%	Cash	4.5%
Mortality Assumptions		
Longevity at 65 for Current Pensioners:		
21.0	Men (years)	21.0
23.8	Women (years)	23.8
Longevity at 65 for Future Pensioners:		
22.9	Men (years)	22.9
25.7	Women (years)	25.7
Financial Assumptions		
2.5%	Rate of inflation	2.8%
2.5%	Rate of increase in pensions	2.8%
4.8%	Rate of increase in salaries	5.1%
5.6%	Expected return on assets	4.5%
4.8%	Rate for discounting scheme liabilities	4.5%
25.0%	Take-up of option to convert annual pension into retirement lump sum-pre April 2008 service	25.0%
63.0%	Take-up of option to convert annual pension into retirement lump sum-post April 2008 service	63.0%

Liabilities have been assessed on an actuarial basis using the projected unit credit method, an estimate of the pensions that will be payable in future years dependent on assumptions about mortality rates, salary levels, etc. The Local Government Pension Scheme liabilities have been assessed by Hymans Robertson, the independent actuaries to the Cambridgeshire County Council Pension Fund based on the latest full valuation

of the scheme as at the 31 March 2010. The results of this valuation were projected forward using approximate methods.

The Local Government Pension Scheme's assets consist of the following categories, by proportion of the total assets held:

31 March 2012		31 March 2013
%		%
72	Equity investments	76
14	Bonds	14
9	Property	7
5	Cash	3
100	Total	100

History of Experienced Gains and Losses

The actuarial gains identified as movements on the Pensions Reserve in 2012/13 can be analysed into the following categories, measured as a percentage of assets or liabilities at 31 March 2013:

	2008/09	2009/10	2010/11	2011/12	2012/13
	%	%	%	%	%
Differences between expected and actual return on assets	(32.33)	19.29	1.28	(6.17)	8.10
Experience Gains and Losses on Liabilities *	0.16	(0.36)	(5.86)	(1.25)	0.02

* represents where events have not coincided with the actuarial assumptions made for the last valuation – the closer to zero the more accurate the assumptions

8 Officers' Remuneration

The number of employees whose remuneration, including lump sum retirement payments but not any associated pension strain, was £50,000 or more in bands of £5,000 is shown in the table.

2011/12 Number of Employees	Remuneration Band	2012/13 Number of Employees
73	£50,000 - £54,999	89
43	£55,000 - £59,999	47
28	£60,000 - £64,999	31
19	£65,000 - £69,999	21
16	£70,000 - £74,999	18
11	£75,000 - £79,999	12
10	£80,000 - £84,999	8
7	£85,000 - £89,999	3
2	£90,000 - £94,999	2
4	£95,000 - £99,999	2
2	£100,000 - £104,999	3
1	£105,000 - £109,999	4
1	£110,000 - £114,999	2
-	£115,000 - £119,999	3
1	£120,000 - £124,999	1
-	£125,000 - £129,999	-
-	£130,000 - £134,999	1
-	£135,000 - £139,999	-
-	£140,000 - £144,999	-
-	£145,000 - £149,999	-
-	£155,000 - £159,999	-
-	£170,000 - £174,999	-
1	£175,000 - £179,999	1

The disclosure is based on gross pay rather than taxable pay i.e. before employee contributions to pension funds.

The bands include those employees who have received remuneration and lump sum payments during the year. This makes comparison between years difficult, but data showing the termination and exit packages is detailed in Note 5.

Interim Directors

In 2011/12 the Council entered into contracts with two companies to supply two interim Executive Directors. The associated costs are detailed below. These reflect sums paid to those companies, including fees, and do not necessarily reflect amounts received by the individuals themselves.

- Interim Executive Director Children's Services was appointed on 28 November 2011 and their contract ended on 21 December 2012, the cost of their service in 2012/13 was £161,453.
- Interim Executive Director Adult Social Services was appointed on 5 December 2011, the cost of their service in 2012/13 was £203,746. Their contract ended on 16 April 2013 with costs in 2013/14 of £9,000.

Senior Employees Remuneration

The following table shows the remuneration paid to the Council's senior employees.

The remuneration paid to the Council's senior employees is as follows:

Post Holder	Year	Salary*	Bonuses	Expenses allowance	Compensation for loss of Office	Benefits in kind ⁺	Election duties	Total Remuneration (exc. Pension contributions)	Pension Contributions (employers) [#]	Total Remuneration (inc. Pension contributions)
Chief Executive G Beasley	2012/13	£169,265	-	-	-	-	£8,400	£177,665	£29,951	£207,616
	2011/12	£169,265	-	-	-	-	£6,000	£175,265	£29,951	£205,216
Executive Director Strategic Resources	2012/13	£120,282	-	-	-	-	£2,825	£123,107	£21,330	£144,437
	2011/12	£120,282	-	-	-	£16	£3,025	£123,323	£21,330	£144,653
Executive Director Operations	2012/13	£107,706	-	-	-	-	£1,825	£109,531	£19,116	£128,647
	2011/12	£107,706	-	-	-	£24	£525	£108,255	£19,116	£127,371
Executive Director Children Services from 22 December 2012	2012/13	£34,501	-	-	-	-	-	£34,501	£6,091	£40,592
	2011/12 to 2 September 2011	£62,641	-	-	£34,577	-	-	£97,218	£10,278	£107,496
Director of Adult Social Services to 1 January 2012. Interim from 5 December 2011	2012/13	-	-	-	-	-	-	-	-	-
	2011/12	£101,312	-	-	-	£73	£175	£101,560	£18,021	£119,581
Solicitor to the Council	2012/13	£105,186	-	-	-	-	£2,850	£108,036	£18,513	£126,549
	2011/12	£90,323	-	-	-	-	£2,750	£93,073	£15,897	£108,970

* Salary includes fees and allowances plus basic arrears. The officer salaries also reflect car parking charges which are deducted directly from earnings via a salary sacrifice scheme

+ Travel related benefits

The Pension Contributions column reflects the employer's contribution only. Each employee makes their own contributions directly to the Pension Fund.

9 Comprehensive Income and Expenditure Statement – Other Operating Expenditure

2011/12 £000		2012/13 £000
	Other Operating Expenditure	£000
397	Parish Council Precepts	418
564	Drainage & Flood Levies	567
6	Payments to the Government Housing Capital Receipts Pool (Note 17)	6
5,583	Net Losses on Disposal of Non Current Assets	967
858	Movement on Revaluation of Assets Held for Sale	-
(1,335)	Gains on Right To Buy Receipts	(236)
6,073	Total	1,722

10 Comprehensive Income and Expenditure Statement – Financing and Investment Income and Expenditure

2011/12 £000	Financing & Investment Income & Expenditure	2012/13 £000
10,271	Interest Payable & Similar Charges (Note 29)	10,277
4,485	Pension Interest Cost & Expected Return on Pension Assets (Note 7)	6,520
(262)	Interest Receivable & Similar Income (Note 29)	(288)
(1,102)	(Gains) / Losses on Trading Operations - (Note 11)	2,975
5,363	(Gains) / Losses in Fair Value of Investment Properties (Note 20)	(1,844)
18,755	Total	17,640

11 Trading Operations

The Council has established a number of trading units where the service manager is required to operate in a commercial environment and balance their budget by generating income from other parts of the Council or other organisations.

Trading Operations 2012/13	Expenditure £000	Income £000	Deficit / (Surplus) £000
Industrial Properties	1,243	(1,903)	(660)
Commercial Properties	509	(1,790)	(1,281)
Market Properties	364	(385)	(21)
Total for Properties	2,116	(4,078)	(1,962)
Other Traded Services	1,592	(817)	775
Sub Total	3,708	(4,895)	(1,187)
Capital Charges Adjustment	4,162	-	4,162
Total for Trading Units	7,870	(4,895)	2,975

Trading Operations 2011/12	Expenditure £000	Income £000	Deficit / (Surplus) £000
Industrial Properties	1,528	(1,646)	(118)
Commercial Properties	647	(1,960)	(1,313)
Market Properties	405	(530)	(125)
Total for Properties	2,580	(4,136)	(1,556)
Other Traded Services	2,161	(1,893)	268
Sub Total	4,741	(6,029)	(1,288)
Capital Charges Adjustment	186	-	186
Total for Trading Units	4,927	(6,029)	(1,102)

Trading Operations are incorporated into the Comprehensive Income and Expenditure Statement. The majority relate to the Council's property portfolio, apart from Westcombe Engineering, a company set up to create employment opportunities for people with disabilities which is included within the Other Traded Services.

12 Comprehensive Income and Expenditure Statement – Taxation and Non Specific Grant Incomes

2011/12 £000	Taxation & Non-Specific Grant Income	2012/13 £000
(61,836)	Council Tax Income	(64,244)
(60,102)	Distribution of national non-domestic rates (NNDR)	(72,674)
(22,128)	Non-Specific Government Grants (Note 13)	(4,198)
(32,173)	Capital Grants & Contributions (Note 26)	(27,391)
(176,239)	Total Income	(168,507)

13 Grant Income

The Council receives a number of grants that contribute to the Taxation and Non-Specific Grant Income line in the Comprehensive Income and Expenditure Statement, Note 11.

2011/12 £000	Taxation & Non Specific Grant Income	2012/13 £000
(18,578)	Revenue Support Grant	(1,409)
(1,533)	Council Tax Freeze Grant	-
(1,300)	New Homes Bonus	(2,117)
(717)	Local Services Support Grant	(672)
(22,128)	Total General Government Grants	(4,198)
(60,102)	Distribution of National Non-domestic Rates (NNDR)	(72,674)
(82,230)	Total non-specific Income from Government	(76,872)

14 Related Parties

The Council is required to disclose material transactions with related parties – bodies or individuals that have the potential to control or influence the Council or to be controlled or influenced by the Council. Disclosure of these transactions allows the readers to assess the extent to which the Council might have been constrained in its ability to operate independently or might

have secured the ability to limit another party's ability to bargain freely with the Council.

The UK Government has significant influence over the general operations of the Council – it is responsible for providing the statutory framework, within which the Council operates, provides the majority of its funding in the form of grants and prescribes the terms of many of the transactions that the Council has with other parties (e.g. council tax bills, housing benefits). Grants received from government departments are set out in the subjective analysis in Note 16 on reporting for resources allocation decisions. Grant receipts outstanding at 31 March 2013 are shown in Note 33.

Members of the Council have direct control over the Council's financial and operating policies. The total of members' allowances paid in 2012/13 is shown in Note 4. Members have been consulted over potential related parties and four Councillors are directors of companies that have transacted with the Council in the last financial year. These companies include a day nursery, a construction company, a property company and Peterborough City Environmental Trust. The transactions with the day nursery are included in the following table but the other transactions are not of a material nature for either the Council or the company and are therefore not disclosed separately. The Register of Members' Interest is open to public inspection at the Town Hall during office hours and the details of Members Interests are disclosed in the Democracy area by Member on the Council's website.

Of the 57 Councillors one declaration of related party interests was not received by 14 June 2013.

Members and officers are appointed as representatives to various local and national bodies where related party

transactions could arise. The complete List of Outside Bodies is available for public inspection at the Town Hall during office hours and is also in the Democracy area of the Council's website. The following table details the major transactions between the Council and those organisations.

Organisation	Member/ Representative	Cost to the Council £000	Balance Outstanding £000
Local Government Association (LGA)	Cllr M Cereste Cllr M Lee Cllr J Peach Cllr M Jamil	41	2
LGA – Rural Commission	Cllr D Over Cllr I Walsh		
LGA – Urban Commission	Cllr G Eley Cllr J Peach		
Eastern Shires Purchasing Organisation	Cllr Holdich Cllr D Seaton	378	-
Cross Keys Homes	Cllr W Fitzgerald Cllr J Holdich	475	15
Opportunity Peterborough	Cllr M Cereste Cllr M Lee Cllr J Goodwin	559	100
P'boro and Stamford NHS Foundation Trust	Cllr D Lamb	85	13
Vivacity	Cllr J Goodwin Cllr M Lee	4,158	109
Cresset – Council of Management	Cllr W Fitzgerald	106	-
North Level Drainage Board	Cllr N Arculus Cllr D Harrington Mr P Hurn Mr S Sly Cllr J Holdich	261	-

Organisation	Member/ Representative	Cost to the Council £000	Balance Outstanding £000
Peterborough Association for the Blind	Cllr P Kreling	6	-
Peterborough Cathedral Trust	Cllr G Simons	5	-
Peterborough Racial Equality Council	Cllr D Fower Cllr N Khan Cllr G Nawaz Cllr N Shabbir	62	-
Peterborough Workspace	Cllr M Fletcher Cllr J Holdich Cllr J Knowles	70	-
Welland and Deeping Internal Drainage Board	Cllr J Holdich	150	-
Italian Community Assn.	Cllr B Rush M D'Andrea	24	2
St Joseph's' Day Nursery	Cllr M Cereste	249	-

As part of its normal business operations the Council has relationships with other local authorities, these include the provision of legal services and trading standards to Rutland County Council, a shared Internal Audit service with Cambridge City Council, the joint school broadband regional consortia E2BN with other East of England Authorities and other services with Cambridgeshire County Council including a joint area based broadband project. These initiatives are designed to produce cost savings for the Council, but are not individually of a material nature.

The Council is sole trustee for the charity Peterborough Museum and Art Gallery. The charity is responsible for the provision and maintenance of a Museum and Art Gallery for the City of Peterborough and neighbourhood: for the

preservation and exhibition of specimens of natural history, geology, archaeology, social history and the fine arts and as a centre for promoting artistic and general knowledge, and providing access to collections for the purpose of knowledge, education, research and learning. From 1 May 2010 the delivery and operation of cultural services, including Peterborough Museum and Art Gallery, were transferred to Vivacity. However the Council remains sole Trustee for the Peterborough Museum and Art Gallery Charity.

Where the Council has substantial interest in companies and relevant transactions and balances these are detailed in Note 15.

There are no further material related party transactions that are not reported elsewhere in the accounts.

15 Interest in Companies

Opportunity Peterborough

The registered name of the company is Opportunity Peterborough Limited and is a wholly owned subsidiary of Peterborough City Council.

The Company exists to “assist, promote, encourage, develop and secure the regeneration in the social, physical, economic environment of the area of Peterborough”. The Council makes a funding contribution to the company and the cost of this, £357,168 in 2012/13 (£377,792 in 2011/12), along with the funding for seconded staff and specific projects, £20,992 in 2012/13 (£34,238 in 2011/12) are included within the Council's Cost of Services.

The net assets of the Company at 31 March 2013 are £196,085 (31 March 2012 £197,440), and the Company made a net deficit of £1,355 in 2012/13 (2011/12 deficit of £21,761).

The accounts can be obtained from Opportunity Peterborough, Stuart House, Ground Floor, Zone 5, St John's Street, Peterborough PE1 5DD.

Blue Sky Peterborough Limited

The registered name of the company is Blue Sky Peterborough Limited, and the company is a wholly owned subsidiary of Peterborough City Council. The company was incorporated on 21 September 2011, and exists to “deliver renewable energy solutions and energy efficiency for Peterborough City Council”.

The company is limited by shares, and the share capital of the company is £1.

16 Amounts Reported for Resource Allocation Decisions

The analysis of income and expenditure by service on the face of the Comprehensive Income and Expenditure Statement (CIES) is that specified by the Service Reporting Code of Practice. However, decisions about resource allocation are taken by the Council's Cabinet on the basis of budget reports analysed across departments. These reports are prepared on a different basis from the accounting policies used in the financial statements. In particular:

- no charges are made in relation to capital expenditure (whereas depreciation, impairment losses and amortisations are charged to services in the CIES)
- the cost of retirement benefits is based on cash flows (payments of employer's pensions contributions) rather than current service cost of benefits accrued in the year
- expenditure on some support services is budgeted for centrally and not charged to portfolios

The income and expenditure of the Council's principal portfolios recorded in the budget reports for the year is as follows:

Portfolio Income & Expenditure for 2012/13	Chief Executives £000	Children's Services £000	Operations £000	Strategic Resources £000	Adult Social Care £000	2012/13 Total £000
Fees, charges & other service income	(1,232)	(22,512)	(12,904)	(24,067)	(14,875)	(75,590)
Government Grants	(3,539)	(151,182)	(3,784)	(89,740)	(4,516)	(252,761)
Total Income	(4,771)	(173,694)	(16,688)	(113,807)	(19,391)	(328,351)
Employee expenses	5,023	115,177	11,317	3,677	14,929	150,123
Other service expenses	6,720	90,483	25,908	153,894	51,514	328,519
Total Expenditure	11,743	205,660	37,225	157,571	66,443	478,642
Net Expenditure	6,972	31,966	20,537	43,764	47,052	150,291
Reconciliation of Portfolio Income & Expenditure to Cost of Services in the Comprehensive Income and Expenditure Statement						
Net Expenditure in the Portfolio Analysis						150,291
Amounts in the Comprehensive Income and Expenditure Statement not reported to management in the Analysis						93,131
Amounts Included in the Analysis not Included in the Comprehensive Income and Expenditure Statement						(24,298)
Cost of Services in Comprehensive Income and Expenditure Statement						219,124

<i>Portfolio Income & Expenditure for 2011/12</i>	<i>Chief Executives £000</i>	<i>Children's Services £000</i>	<i>Operations £000</i>	<i>Strategic Resources £000</i>	<i>Adult Social Care £000</i>	<i>2011/12 Total £000</i>
<i>Fees, charges & other service income</i>	<i>(1,889)</i>	<i>(24,051)</i>	<i>(12,939)</i>	<i>(26,421)</i>	<i>(5,119)</i>	<i>(70,419)</i>
<i>Government Grants</i>	<i>(421)</i>	<i>(158,455)</i>	<i>(5,219)</i>	<i>(84,284)</i>	<i>(3,033)</i>	<i>(251,412)</i>
<i>Total Income</i>	<i>(2,310)</i>	<i>(182,506)</i>	<i>(18,158)</i>	<i>(110,705)</i>	<i>(8,152)</i>	<i>(321,831)</i>
<i>Employee expenses</i>	<i>5,597</i>	<i>121,790</i>	<i>11,459</i>	<i>9,878</i>	<i>1,709</i>	<i>150,433</i>
<i>Other service expenses</i>	<i>4,226</i>	<i>90,002</i>	<i>26,960</i>	<i>148,032</i>	<i>52,889</i>	<i>322,109</i>
<i>Total Expenditure</i>	<i>9,823</i>	<i>211,792</i>	<i>38,419</i>	<i>157,910</i>	<i>54,598</i>	<i>472,542</i>
<i>Net Expenditure</i>	<i>7,513</i>	<i>29,286</i>	<i>20,261</i>	<i>47,205</i>	<i>46,446</i>	<i>150,711</i>
<i>Reconciliation of Portfolio Income & Expenditure to Cost of Services in the Comprehensive Income and Expenditure Statement</i>						
<i>Net Expenditure in the Portfolio Analysis</i>						<i>150,711</i>
<i>Amounts in the Comprehensive Income and Expenditure Statement not reported to management in the Analysis</i>						<i>16,680</i>
<i>Amounts Included in the Analysis not Included in the Comprehensive Income and Expenditure Statement</i>						<i>(18,769)</i>
<i>Cost of Services in Comprehensive Income and Expenditure Statement</i>						<i>148,622</i>

Reconciliation to Subjective Analysis

This reconciliation shows how the figures in the analysis of portfolio income and expenditure relate to a subjective analysis of the

'(Surplus) / Deficit on the Provision of Services' line included in the Comprehensive Income and Expenditure Statement.

Reconciliation to Subjective Analysis 2012/13	Portfolio Analysis	Amounts not Reported to Mgmt ¹	Amounts not included in CIES ²	Allocation of Recharges	Cost of Services	Corporate Amounts	Total
	£000	£000	£000	£000	£000	£000	£000
Fees, Charges & Other Service Income	(75,302)	6,849	4,979	8,236	(55,238)	(10,820)	(66,093)
Interest & Investment Income	(288)	-	288	-	-	(288)	(288)
Income from Council Tax	-	-	-	-	-	(64,244)	(64,244)
Government Grants & Contributions	(252,761)	-	2,789	-	(249,972)	(104,263)	(354,200)
Total Income	(328,351)	6,849	8,056	8,236	(305,210)	(179,615)	(484,825)
Employee Expenses	150,123	(6,273)	(527)	-	143,323	7,047	150,370
Other Service Expenses	322,261	(12,742)	(25,569)	-	283,950	7,343	291,293
Support Services Recharges	-	-	-	(8,236)	(8,236)	-	(8,236)
Depreciation, Amortisation & Impairment	-	105,297	-	-	105,297	-	105,297
Interest Payments	6,258	-	(6,258)	-	-	10,277	10,277
Precepts & Levies	-	-	-	-	-	985	985
Payments to Housing Capital Receipts Pool	-	-	-	-	-	6	6
Movement on Revaluation of Assets Held for Sale	-	-	-	-	-	-	-
Loss on Disposal of Non-Current Assets	-	-	-	-	-	4,812	4,812
Total Expenditure	478,642	86,282	(32,354)	(8,236)	524,334	30,470	554,804
Deficit / (Surplus) on the Provision of Services	150,291	93,131	(24,298)	-	219,124	(149,145)	69,979

¹ Amounts not reported to Management are accounting entries over which the Management have no control ie IAS19 pension adjustment and the accumulated compensated absences adjustment

² Amounts not included in the Comprehensive Income and Expenditure Statement (CIES) are the Trading Units which are shown in Other Operating Expenditure rather than in the Cost of Services in the Comprehensive Income and Expenditure Statement.

<i>Reconciliation to Subjective Analysis 2011/12 – Comparative Figures Table</i>	<i>Portfolio Analysis</i>	<i>Amounts not Reported to Mgmt</i>	<i>Amounts not included in CIES</i>	<i>Allocation of Recharges</i>	<i>Cost of Services</i>	<i>Corporate Amounts</i>	<i>Total</i>
	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>
<i>Fees, Charges & Other Service Income</i>	(70,197)	5,933	7,009	11,743	(45,512)	(11,927)	(57,439)
<i>Interest & Investment Income</i>	(222)	-	222	-	-	(262)	(262)
<i>Income from Council Tax</i>	-	-	-	-	-	(61,836)	(61,836)
<i>Government Grants & Contributions</i>	(251,412)	-	3,550	-	(247,862)	(114,403)	(362,265)
<i>Total Income</i>	(321,831)	5,933	10,781	11,743	(293,374)	(188,428)	(481,802)
<i>Employee Expenses</i>	150,433	(5,014)	(942)	-	144,477	5,427	149,904
<i>Other Service Expenses</i>	316,014	(13,600)	(22,513)	-	279,901	4,041	283,942
<i>Support Services Recharges</i>	-	5	-	(11,743)	(11,738)	-	(11,738)
<i>Depreciation, Amortisation & Impairment</i>	-	29,356	-	-	29,356	5,363	34,719
<i>Interest Payments</i>	6,095	-	(6,095)	-	-	10,271	10,271
<i>Precepts & Levies</i>	-	-	-	-	-	961	961
<i>Payments to Housing Capital Receipts Pool</i>	-	-	-	-	-	6	6
<i>Movement on Revaluation of Assets Held for Sale</i>	-	-	-	-	-	858	858
<i>Loss on Disposal of Non-Current Assets</i>	-	-	-	-	-	10,090	10,090
<i>Total Expenditure</i>	472,542	10,747	(29,550)	(11,743)	441,996	37,017	479,013
<i>Deficit / (Surplus) on the Provision of Services</i>	150,711	16,680	(18,769)	-	148,622	(151,411)	(2,789)

17 Movement in Reserves Statement – Adjustments between Accounting Basis and Funding Basis under Regulations

This note details the adjustments that are made to the total Comprehensive Income and Expenditure Statement recognised by the Council in the year in accordance with proper accounting practice to the resources that are specified by statutory provisions as being available to the Council to meet future capital and revenue expenditure.

- General Fund Balance - is the statutory fund into which all the receipts of an authority are required to be paid in and out of which all liabilities of the Council are to be met, except to the extent that statutory rules might provide otherwise. These rules can also specify the financial year in which liabilities and payments should impact on the General Fund, which is not necessarily in accordance with proper accounting practice. The General Fund Balance therefore summarises the resources that the Council is statutorily empowered to spend on its services or on capital investment (or the deficit of resources that the Council is required to recover) at the end of the financial year.
- Capital Receipts Reserve – holds the proceeds from the disposal of land or other assets, which are restricted by statute from being used other than to fund new capital expenditure or to be set aside to finance historical capital expenditure.
- Capital Grants Unapplied Account – holds the grants and contributions received towards capital projects for which the Council has met the conditions that would otherwise require repayment of the monies but which have yet to be applied to meet expenditure. The balance is not restricted by grant terms as to the capital expenditure against which it can be

applied and / or the financial year in which this can take place.

Usable Reserves are those reserves that can be applied to fund expenditure or reduce local taxation and Unusable Reserves are those reserves that absorb the timing differences arising from different accounting arrangements.

• **Summary of Usable and Unusable Reserves**

<i>Restated 1 April 2011</i>	<i>Movement</i>	<i>Restated 31 March 2012</i>	Summary of Usable and Unusable Reserves	Restated 31 March 2012	Movement	31 March 2013
<i>£000</i>	<i>£000</i>	<i>£000</i>		£000	£000	£000
			Usable Reserves			
(6,000)	-	(6,000)	General Fund Balance	(6,000)	-	(6,000)
(6,749)	(100)	(6,849)	School Balances	(6,849)	554	(6,295)
(17,038)	58	(16,980)	Specific Earmarked Reserves (Note 18)	(16,980)	1,676	(15,304)
-	-	-	Capital Receipts Reserve	-	-	-
(4,964)	3,235	(1,729)	Capital Grants Unapplied Account	(1,729)	287	(1,442)
(34,751)	3,193	(31,558)	Total Usable Reserves	(31,558)	2,517	(29,041)
			Unusable Reserves			
(82,961)	(25,717)	(108,678)	Revaluation Reserve	(108,678)	(5,173)	(113,851)
(169,383)	(9,895)	(179,278)	Capital Adjustment Account	(179,278)	62,183	(117,095)
(2,971)	1,014	(1,957)	Deferred Capital Receipts	(1,957)	982	(975)
504	(7)	497	Financial Instruments Adjustment Account	497	(8)	489
145,349	41,935	187,284	Pension Fund Reserve	187,284	28,231	215,515
363	(110)	253	Collection Fund Adjustment Account	253	78	331
4,519	(221)	4,298	Accumulating Compensated Absences Adjustment Account	4,298	(354)	3,944
(104,580)	6,999	(97,581)	Total Unusable Reserves	(97,581)	85,939	(11,642)
(139,331)	10,192	(129,139)	Total Usable and Unusable Reserves	(129,139)	88,456	(40,683)

Adjustments between Accounting Basis and Funding Basis under Regulations 2012/13	Usable Reserves			Movement in Unusable Reserves
	General Fund Bal	Capital Receipts Reserve	Capital Grants Unapplied	
	£000	£000	£000	£000
Adjustments involving the Capital Adjustment Account:				
<u>Reversal of items debited or credited to the CIES:</u>				
Depreciation & impairment of non current assets	(43,114)	-	-	43,114
Revaluation losses on Property Plant and Equipment	(29,087)	-	-	29,087
Movements in the fair value of Investment Properties	1,844	-	-	(1,844)
Amortisation of intangible assets	(814)	-	-	814
Capital grants and contributions	30,988	-	-	(30,988)
Revenue expenditure funded from capital under statute	(36,019)	-	-	36,019
Amounts of non-current assets written off on disposal or sale as part of the gain / loss on disposal to the CIES	(4,794)	-	-	4,794
<u>Insertion of items not debited or credited to the CIES:</u>				
Statutory provision for the financing of capital investment	9,349	-	-	(9,349)
Capital expenditure charged against the General Fund	-	-	-	-
Adjustments primarily involving the Capital Grants Unapplied Account:				
Capital grants & contributions unapplied from the CIES	140	-	(140)	-
Application of grants to capital financing transferred to the Capital Adjustment Account	-	-	427	(427)
Adjustments involving the Capital Receipts Reserve:				
Transfer of cash sale proceeds credited as part of the gain / loss on disposal to the CIES	4,081	(4,081)	-	-
Use of the reserve to finance new capital expenditure	-	5,057	-	(5,057)
Contribution from the reserve to finance the payments to the Government capital receipts pool.	(6)	6	-	-
Transfer from Deferred Capital Receipts Reserve upon receipt of cash	-	(982)	-	982
Adjustments involving the Financial Instruments Adjustment Account:				
Amounts by which finance costs charged to the CIES are different from finance costs chargeable in the year in accordance with statutory requirements.	8	-	-	(8)
Adjustments involving the Pensions Reserve:				
Reversal of items relating to retirement benefits debited or credited to the CIES	(13,393)	-	-	13,393
Employer's pensions contributions & direct payments to pensioners payable in the year	12,792	-	-	(12,792)
Adjustments involving the Collection Fund Adjustment Account:				
Amount by which council tax income credited to the CIES is different from council tax income calculated for the year in accordance with statutory requirements	(78)	-	-	78
Adjustment involving the Accumulating Compensated Absences Adjustment Account				
Adjustments for short-term compensated absences	354	-	-	(354)
Total Adjustments	(67,749)	-	287	67,462

<i>Adjustments between Accounting Basis and Funding Basis under Regulations 2011/12</i>	<i>Usable Reserves</i>			<i>Movement in Unusable Reserves</i>
	<i>General Fund Bal</i>	<i>Capital Receipts Reserve</i>	<i>Capital Grants Unapplied</i>	
	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>
<i>Adjustments involving the Capital Adjustment Account:</i>				
<i><u>Reversal of items debited or credited to the CIES:</u></i>				
<i>Depreciation & impairment of non current assets</i>	<i>(16,900)</i>	<i>-</i>	<i>-</i>	<i>16,900</i>
<i>Revaluation losses on Property Plant and Equipment</i>	<i>(1,102)</i>	<i>-</i>	<i>-</i>	<i>1,102</i>
<i>Movements in the fair value of Investment Properties</i>	<i>(5,363)</i>	<i>-</i>	<i>-</i>	<i>5,363</i>
<i>Amortisation of intangible assets</i>	<i>(650)</i>	<i>-</i>	<i>-</i>	<i>650</i>
<i>Capital grants and contributions</i>	<i>40,293</i>	<i>-</i>	<i>-</i>	<i>(40,293)</i>
<i>Revenue expenditure funded from capital under statute</i>	<i>(16,607)</i>	<i>-</i>	<i>-</i>	<i>16,607</i>
<i>Amounts of non-current assets written off on disposal or sale as part of the gain / loss on disposal to the CIES</i>	<i>(10,149)</i>	<i>-</i>	<i>-</i>	<i>10,149</i>
<i><u>Insertion of items not debited or credited to the CIES:</u></i>				
<i>Statutory provision for the financing of capital investment</i>	<i>9,330</i>	<i>-</i>	<i>-</i>	<i>(9,330)</i>
<i>Capital expenditure charged against the General Fund</i>	<i>(470)</i>	<i>-</i>	<i>-</i>	<i>470</i>
<i>Adjustments primarily involving the Capital Grants Unapplied Account:</i>				
<i>Capital grants & contributions unapplied from the CIES</i>	<i>(2,173)</i>	<i>-</i>	<i>2,173</i>	<i>-</i>
<i>Application of grants to capital financing transferred to the Capital Adjustment Account</i>	<i>-</i>	<i>-</i>	<i>1,062</i>	<i>(1,062)</i>
<i>Adjustments involving the Capital Receipts Reserve:</i>				
<i>Transfer of cash sale proceeds credited as part of the gain / loss on disposal to the CIES</i>	<i>5,898</i>	<i>(5,898)</i>	<i>-</i>	<i>-</i>
<i>Use of the reserve to finance new capital expenditure</i>	<i>-</i>	<i>6,906</i>	<i>-</i>	<i>(6,906)</i>
<i>Contribution from the reserve to finance the payments to the Government capital receipts pool.</i>	<i>(6)</i>	<i>6</i>	<i>-</i>	<i>-</i>
<i>Transfer from Deferred Capital Receipts Reserve upon receipt of cash</i>	<i>-</i>	<i>(1,014)</i>	<i>-</i>	<i>1,014</i>
<i>Adjustments involving the Financial Instruments Adjustment Account:</i>				
<i>Amounts by which finance costs charged to the CIES are different from finance costs chargeable in the year in accordance with statutory requirements.</i>	<i>7</i>	<i>-</i>	<i>-</i>	<i>(7)</i>
<i>Adjustments involving the Pensions Reserve:</i>				
<i>Reversal of items relating to retirement benefits debited or credited to the CIES</i>	<i>(12,078)</i>	<i>-</i>	<i>-</i>	<i>12,078</i>
<i>Employer's pensions contributions & direct payments to pensioners payable in the year</i>	<i>12,386</i>	<i>-</i>	<i>-</i>	<i>(12,386)</i>
<i>Adjustments involving the Collection Fund Adjustment Account:</i>				
<i>Amount by which council tax income credited to the CIES is different from council tax income calculated for the year in accordance with statutory requirements</i>	<i>110</i>	<i>-</i>	<i>-</i>	<i>(110)</i>
<i>Adjustment involving the Accumulating Compensated Absences Adjustment Account:</i>				
<i>Adjustments for short-term compensated absences</i>	<i>221</i>	<i>-</i>	<i>-</i>	<i>(221)</i>
<i>Total Adjustments</i>	<i>2,747</i>	<i>-</i>	<i>3,235</i>	<i>(5,982)</i>

- **Revaluation Reserve**

The Revaluation Reserve contains the gains made by the Council arising from increases in the value of its Property, Plant and Equipment. The balance is reduced when assets with accumulated gains are:

- revalued downwards or impaired and the gains are lost
- used in the provision of services and the gains are consumed through depreciation, or
- disposed of and the gains realised

The reserve contains only revaluation gains accumulated since 1 April 2007, the date that the Reserve was created. Accumulated gains arising before that date are consolidated into the balance on the Capital Adjustment Account.

2011/12 £000	Revaluation Reserve:	2012/13 £000
(82,961)	Balance at 31 st March	(108,678)
-	B/Fwd Adjustment for DRC	343
(82,961)	Adjusted B/Fwd Balance 1 st April	(108,335)
(53,185)	Upward revaluation of assets	(19,818)
23,924	Downward revaluation of assets & impairment losses not charge to the Surplus / Deficit on the Provision of services	10,665
473	Difference between fair value depreciation & historical cost depreciation	1,522
3,071	Release of revaluation gains on disposal	2,115
(108,678)	Balance at end of the Year	(113,851)

- **Capital Adjustment Account**

The Capital Adjustment Account (CAA) absorbs the timing differences arising from the different arrangements for

accounting for the consumption of non current assets and for financing those assets under statutory provisions.

2011/12 £000	Capital Adjustment Account:	2012/13 £000
(169,383)	Balance at 31 st March	(179,278)
-	B/Fwd Adjustment for DRC	(343)
(169,383)	Adjusted B/Fwd Balance 1 st April	(179,621)
16,900	Charges for depreciation & Impairment	43,114
1,102	Revaluation gains / losses on Property, Plant & Equipment	29,087
5,363	Movement in market value of Investment Properties	(1,844)
650	Amortisation of Intangible Assets	814
(40,293)	Capital Grants & Contributions that have been applied to Capital Financing	(30,988)
16,607	Revenue Expenditure Funded from Capital under Statue	36,019
10,149	Amounts of non-current assets written off on disposal or sales as part of the Gains / Losses on Disposal in the CIES	4,794
470	Capitalisation Direction	-
(9,330)	Provision for the Repayment of Debt (MRP)	(9,349)
(1,062)	Application of Grants to Capital Financing from the Capital Grants Unapplied Account	(427)
(473)	Depreciation & Impairment written down to Revaluation Reserve	(1,522)
(3,071)	Transfer of Revaluation Reserve on disposal	(2,115)
(7,050)	Transfer from Useable Capital Receipts	(5,059)
143	Repayment of Loan	2
(179,278)	Balance at end of the Year	(117,095)

The Account is debited with the cost of acquisition, construction or enhancement as depreciation, impairment

losses and amortisations are charged to the Comprehensive Income and Expenditure Statement. The Account is credited with the amounts set aside by the Council as finance for the costs of acquisition, construction and enhancement. The Account contains accumulated gains and losses on Investment Properties.

- **Deferred Capital Receipts Reserve**

The Deferred Capital Receipts Reserve holds the gains recognised on the disposal of non-current assets but for which cash settlement has yet to take place. Under statutory arrangements, the Council does not treat these gains as usable for financing new capital expenditure until they are backed by cash receipts. When the deferred cash settlement eventually takes place, amounts are transferred to the Capital Receipts Reserve.

2011/12 £000	Deferred Capital Receipts Reserve:	2012/13 £000
(2,971)	Balance at start of year	(1,957)
1,014	Transfer to the Capital Receipts Reserve upon receipt of cash	982
<u>(1,957)</u>	Balance at end of the Year	<u>(975)</u>

- **Financial Instruments Adjustment Account**

The Financial Instruments Adjustment Account absorbs the timing differences arising from the different arrangements for accounting for income and expenses relating to certain financial instruments and for bearing losses or benefitting from gains per statutory provisions.

2011/12 £000	Financial Instruments Adjustment Account:	2012/13 £000
504	Balance at start of year	497
(7)	Interest Paid on Short Term Loans	(8)
<u>497</u>	Balance at end of the Year	<u>489</u>

- **Pensions Reserve**

The Pensions Reserve absorbs the timing differences arising from the different arrangements for accounting for post employment benefits and for funding benefits in accordance with statutory provisions. The Council accounts for post employment benefits in the Comprehensive Income and Expenditure Statement as the benefits are earned by employees accruing years of service, updating the liabilities recognised to reflect inflation, changing assumptions and investment returns on any resources set aside to meet costs. However, statutory arrangements require benefits earned to be financed as the Council makes employers' contributions to pension funds or eventually pay any pension for which it is directly responsible. The debit balance on the Pension Reserve therefore shows a shortfall in the benefits earned by past and current employees and the resources the Council has set aside to meet them. The statutory arrangements will ensure that funding will have

been set aside by the time the benefits come to be paid. For further information see Note 7.

2011/12 £000	Pensions Reserve:	2012/13 £000
145,349	Balance at start of year	187,284
42,243	Actuarial gains / losses on pension assets & liabilities (Note 7)	27,630
12,078	Reversal of items relating to Post Employment Benefits Debited / Credited to the Surplus / Deficit on the provision of Services line in the CIES (Note 7)	13,393
(12,386)	Employer's Pension Contributions & Direct Payments to Pensioners Payable in Year (Note 7)	(12,792)
<u>187,284</u>	Balance at end of the Year	<u>215,515</u>

- **Collection Fund Adjustment Account**

The Collection Fund Adjustment Account manages the differences arising from the recognition of council tax income in the Comprehensive Income and Expenditure Statement as it falls due from council tax payers compared with the statutory arrangements for paying across amounts to the General Fund from the Collection Fund. For further details on the Collection Fund, see page 63.

2011/12 £000	Collection Fund Adjustment Account:	2012/13 £000
363	Balance at start of year	253
(110)	Amount by which Council Tax Income credited to the CIES is different from Council Tax Income calculated for the year in accordance with statutory requirements	78
<u>253</u>	Balance at end of the Year	<u>331</u>

- **Accumulating Compensated Absences Adjustment Account**

The Accumulated Absences Account absorbs the differences that would otherwise arise on the General Fund Balance from accruing for compensated absences earned but not taken in the year, eg annual leave entitlement carried forward at 31 March. Statutory arrangements require that the impact on the General Fund Balance is neutralised by transfers to or from the account.

2011/12 £000	Accumulating Compensated Absences Adjustment Account:	2012/13 £000
4,519	Balance at start of year	4,298
(221)	Amount by which officer remunerations charged to the CIES on an accruals basis is different from the remuneration chargeable in year	(354)
<u>4,298</u>	Balance at end of the Year	<u>3,944</u>

18 Movement in Reserves Statement – Transfers to / (from) Earmarked Reserves

This note sets out the amounts set aside from the General Fund Balance in earmarked reserves to provide financing for future expenditure plans and the amounts posted back from earmarked reserves to meet General Fund expenditure.

General Fund Earmarked Reserves	31 March 2012	Transfers Out	Transfers In	Movement between Reserves	31 March 2013	Purpose of the Earmarked Reserve
	£000	£000	£000	£000	£000	
Departmental Reserves	4,032	(3,228)	1,881	161	2,846	These have been identified by Cabinet or Corporate Management Team and are incorporated within the Medium Term Financial Strategy for Departmental use.
Insurance	2,980	(263)	1,094	-	3,811	To provide for future claims (self insurance). A number of risks, contingencies and financial losses are held covered by the Council's Insurance Reserve. In general terms the Council self-insures against the risks of theft, subsidence and accidental damage to property. Additionally, the excess on external insurance arrangements, which range from £2,500 to £25,000 per loss, are also met by the Reserve.
Schools Capital	1,832	(1,011)	133	-	954	School revenue reserves put aside for funding future school capital schemes.
Future Cities	-	-	3,000	-	3,000	Grant funding from The Technology Strategy Board to support the 'Connected Peterborough' Future Cities Demonstrator project.
Available for Capacity Building	7,773	(7,326)	4,090	(112)	4,425	The balance of the sums set aside which can be utilised to fund one-off type expenditure which will improve the longer term financial position of the council.
Salix Carbon Reduction	186	(191)	54	(49)	-	To fund specific carbon reduction projects
Other	177	(86)	177	-	268	These include the Local Authority Mortgage Scheme, Building Control, Hackney Carriage Accounts and Parish Burial Reserves.
Total Reserves	16,980	(12,105)	10,429	-	15,304	

19 Property, Plant and Equipment

Property, Plant & Equipment (PPE) – 2012/13	Other Land & Buildings	Vehicles, Plant & Equipment	Infra-structure Assets	Community Assets	Heritage Assets	Surplus	Assets under Construction	Total PPE
Cost or Valuation	£000	£000	£000	£000	£000	£000	£000	£000
At 31 March 2012 Gross Book Value	308,989	44,025	173,616	5,808	559	23,835	37,569	594,401
Additions	33,060	7,713	10,694	25	-	10	21,894	73,396
Revaluation increase / (decrease) recognised in the Revaluation Reserve	11,201	-	-	-	11	-	-	11,212
Revaluation increase / (decrease) recognised in the (Surplus) / Deficit on Provision of Services	(30,426)	-	-	-	-	-	-	(30,426)
Derecognition - Disposals	(3,358)	(499)	-	-	-	-	-	(3,857)
Reclassified Assets	2,435	-	-	(1,789)	-	-	-	646
Assets Under Construction Completed In Year	23,183	684	68	39	-	1,722	(26,556)	(860)
At 31 March 2013	345,084	51,923	184,378	4,083	570	25,567	32,907	644,512
Accumulated Depreciation								
At 31 March 2012	(10,448)	(28,901)	(55,918)	(24)	-	(317)	-	(95,608)
Depreciation Charge	(6,268)	(6,114)	(8,494)	-	-	-	-	(20,876)
Depreciation written out to the Revaluation Reserve	4,052	-	-	-	-	-	-	4,052
Depreciation written out to the (Surplus) / Deficit on Provision of Services	1,339	-	-	-	-	-	-	1,339
Impairment losses / (reversals) recognised in the Revaluation Reserve	(2,992)	-	-	(3,119)	-	-	-	(6,111)
Impairment losses / (reversals) recognised in the (Surplus) / Deficit on Provision of Services	(18,681)	(10)	-	(64)	-	(1,732)	(318)	(20,805)
Derecognition - Disposals	146	469	-	-	-	-	-	615
At 31 March 2013	(32,852)	(34,556)	(64,412)	(3,207)	-	(2,049)	(318)	(137,394)
Net Book Value - At 31 March 2013	312,232	17,367	119,966	876	570	23,518	32,589	507,118
<i>Net Book Value - At 31 March 2012</i>	298,541	15,124	117,698	5,784	559	23,518	37,569	498,793

Comparative Movements in 2011/12

<i>Property, Plant & Equipment (PPE) – 2011/12</i>	<i>Other Land & Buildings</i>	<i>Vehicles, Plant & Equipment</i>	<i>Infra- structure Assets</i>	<i>Community Assets</i>	<i>Heritage Assets</i>	<i>Surplus</i>	<i>Assets under Construction</i>	<i>Total PPE</i>
<i>Cost or Valuation</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>
<i>At 31 March 2011</i>	<i>268,398</i>	<i>46,819</i>	<i>164,388</i>	<i>5,932</i>	<i>-</i>	<i>24,447</i>	<i>10,761</i>	<i>520,745</i>
<i>Additions</i>	<i>15,152</i>	<i>2,804</i>	<i>9,060</i>	<i>14</i>	<i>-</i>	<i>63</i>	<i>31,665</i>	<i>58,758</i>
<i>Revaluation increase / (decrease) recognised in the Revaluation Reserve</i>	<i>21,590</i>	<i>-</i>	<i>-</i>	<i>(250)</i>	<i>559</i>	<i>(449)</i>	<i>-</i>	<i>21,450</i>
<i>Revaluation increase / (decrease) recognised in the (Surplus) / Deficit on Provision of Services</i>	<i>6,245</i>	<i>-</i>	<i>-</i>	<i>(243)</i>	<i>-</i>	<i>318</i>	<i>-</i>	<i>6,320</i>
<i>Change in Classification of Impairment Losses</i>	<i>(2,125)</i>	<i>(1,217)</i>	<i>-</i>	<i>-</i>	<i>-</i>	<i>-</i>	<i>-</i>	<i>(3,342)</i>
<i>Derecognition - Disposals</i>	<i>(2,813)</i>	<i>(4,381)</i>	<i>-</i>	<i>(153)</i>	<i>-</i>	<i>0</i>	<i>-</i>	<i>(7,347)</i>
<i>Reclassified Assets</i>	<i>(1,722)</i>	<i>-</i>	<i>-</i>	<i>403</i>	<i>-</i>	<i>(551)</i>	<i>-</i>	<i>(1,870)</i>
<i>Assets Under Construction Completed In Year</i>	<i>4,264</i>	<i>-</i>	<i>168</i>	<i>105</i>	<i>-</i>	<i>7</i>	<i>(4,857)</i>	<i>(313)</i>
<i>At 31 March 2012</i>	<i>308,989</i>	<i>44,025</i>	<i>173,616</i>	<i>5,808</i>	<i>559</i>	<i>23,835</i>	<i>37,569</i>	<i>594,401</i>
<i>Accumulated Depreciation</i>								
<i>At 31st March 2011</i>	<i>(11,155)</i>	<i>(27,273)</i>	<i>(48,042)</i>	<i>(31)</i>	<i>-</i>	<i>(64)</i>	<i>-</i>	<i>(86,565)</i>
<i>Depreciation Charge</i>	<i>(6,760)</i>	<i>(6,765)</i>	<i>(7,865)</i>	<i>(6)</i>	<i>-</i>	<i>(5)</i>	<i>-</i>	<i>(21,401)</i>
<i>Depreciation written out to the Revaluation Reserve</i>	<i>8,930</i>	<i>-</i>	<i>-</i>	<i>10</i>	<i>-</i>	<i>-</i>	<i>-</i>	<i>8,940</i>
<i>Depreciation written out to the (Surplus) / Deficit on Provision of Services</i>	<i>(257)</i>	<i>-</i>	<i>-</i>	<i>17</i>	<i>-</i>	<i>38</i>	<i>-</i>	<i>(202)</i>
<i>Impairment losses/(reversals) recognised in the Revaluation Reserve</i>	<i>(1,242)</i>	<i>-</i>	<i>-</i>	<i>-</i>	<i>-</i>	<i>-</i>	<i>-</i>	<i>(1,242)</i>
<i>Impairment losses/(reversals) recognised in the (Surplus) / Deficit on Provision of Services</i>	<i>(2,328)</i>	<i>(23)</i>	<i>(11)</i>	<i>(14)</i>	<i>-</i>	<i>(286)</i>	<i>-</i>	<i>(2,662)</i>
<i>Change in Classification of Impairment Losses</i>	<i>2,125</i>	<i>1,217</i>	<i>-</i>	<i>-</i>	<i>-</i>	<i>-</i>	<i>-</i>	<i>3,342</i>
<i>Derecognition - Disposals</i>	<i>239</i>	<i>3,943</i>	<i>-</i>	<i>-</i>	<i>-</i>	<i>-</i>	<i>-</i>	<i>4,182</i>
<i>At 31 March 2012</i>	<i>(10,448)</i>	<i>(28,901)</i>	<i>(55,918)</i>	<i>(24)</i>	<i>-</i>	<i>(317)</i>	<i>-</i>	<i>(95,608)</i>
<i>Net Book Value - At 31 March 2012</i>	<i>298,541</i>	<i>15,124</i>	<i>117,698</i>	<i>5,784</i>	<i>559</i>	<i>23,518</i>	<i>37,569</i>	<i>498,793</i>
<i>Net Book Value - At 31 March 2011</i>	<i>257,242</i>	<i>19,546</i>	<i>116,347</i>	<i>5,902</i>	<i>-</i>	<i>24,382</i>	<i>10,761</i>	<i>434,180</i>

33

20 Investment Properties

The rental income and operating expenses from the Council's investment properties are disclosed within the Trading Operations Note 11 on page 22.

There are no restrictions on the Council's ability to realise the value inherent in its investment property or on the Council's right to the remittance of income and the proceeds of disposal. The Council has no contractual obligations to purchase, construct or develop investment property or repairs, maintenance or enhancement.

The following table summarises the movement in the fair value of investment properties over the year:

<i>2011/12</i> £000	Investment Properties	2012/13 £000
40,012	Balance at start of year	33,826
	Additions:	
20	Transfer from Assets Under Construction	-
228	Subsequent Expenditure	582
(1,071)	Disposals	(288)
(5,363)	Revaluations (Note 10)	1,844
-	Impairments (Note 10)	(1,179)
-	To/from Property, Plant and Equipment	423
<u>33,826</u>	Balance at end of the Year	<u>35,208</u>

21 Intangible Assets

The Council accounts for its software as intangible assets, to the extent that the software is not an integral part of a particular IT system and accounted for as part of the hardware item of Property, Plant and Equipment. The intangible assets include both purchased licenses and internally generated software.

All software is given a finite useful life. A three year useful life is assigned to all intangible assets with exception to the vehicle licence plate which the Council have deemed to have an infinite life and is therefore not amortised.

The carrying amount of intangible assets is amortised on a straight-line basis.

There is one item of capitalised software that is individually material to the financial statements:

<i>31</i> <i>March</i> <i>2012</i> £000	Intangible Assets	Remaining Amortisation Period Years	31 March 2013 £000
548	EDRM Software	2.5	511
354	Integrated Case Management System	-	-
<u>902</u>	Total		<u>511</u>

The movement on Intangible Assets balances during the year is as follows:

<i>Internally Generated Asset</i> £000	<i>Software & Other Assets</i> £000	<i>2011/12 Total</i> £000	Intangible Assets	Internally Generated Asset £000	Software & Other Assets £000	2012/13 Total £000
142	6,644	6,786	Balance at 1 April:	142	6,903	7,045
(87)	(4,161)	(4,248)	Gross Carrying Amounts	(105)	(4,792)	(4,897)
55	2,483	2,538	Accumulated Amortisation	37	2,111	2,148
-	457	457	Net Carrying Amount at Start of the Year	-	1,700	1,700
-	-	-	Additions	-	174	174
-	(198)	(198)	Purchases	-	-	-
(18)	(631)	(649)	Assets Under Construction Completed in Year	(13)	(801)	(814)
37	2,111	2,148	Impairment Losses Recognised in the (Surplus) / Deficit on the Provision of Services	24	3,184	3,208
142	6,903	7,045	Amortisation for the period	142	8,778	8,920
(105)	(4,792)	(4,897)	Net Carrying Amount at the End of Year	(118)	(5,594)	(5,712)
37	2,111	2,148	Gross Carrying Amounts	24	3,184	3,208
			Accumulated Amortisation			
			Net Carrying Amount at the End of Year			

22 Assets Held for Sale

The following note details assets which are surplus to the Council's service needs and classified as 'Assets Held for Sale'. Qualifying assets are generally defined as 'held for sale' if their carrying amount is going to be recovered principally through a sales transaction rather than continued use and meet the strict 'Assets held for sale' criteria outlined in the Code of Practice on Local Authority Accounting.

2011/12 £000	Assets Held for Sale - Current Assets	2012/13 £000
6,146	Balance at 1 April:	2,300
1,722	Property, Plant and Equipment Newly Classified as Assets Held Sale - Current Asset	263
(867)	Revaluation Losses	-
-	Impairment Losses	(254)
(5)	Property, Plant and Equipment Declassified as Held for Sale (Note 19)	(646)
(4,929)	Assets Sold	(1,264)
148	Transfers from Non Current to Current	-
	Other movements:	
-	Additions	36
85	Capital Costs Incurred In Preparation For Disposal	-
<u>2,300</u>	Balance Outstanding	<u>435</u>

23 Capital Commitments

As at 31 March 2013 the Council had entered into a number of contracts for the construction or enhancement of Property, Plant and Equipment during 2012/13 and future years budgeted to cost £97.8m as approved within the MTFS. The major commitments are:

Description of Contract / Capital Scheme	Value of contract £000	Value outstanding at 31/3/13 £000
Traffic signals	113	74
Athletics track resurfacing	354	310
Lido Pool Re-tanking	382	266
Bridge Street Public Realm Improvements	2,600	1,300
Affordable Housing Works:		
Carbon Challenge Site	1,199	550
Stanground South	3,204	1,602
Windsor Avenue	230	115
Eastfield Road	450	450
Schools Works:		
All Saints School	5,000	3,529
City of Peterborough Academy	12,822	2,883
Hampton Community School	9,413	2,579
Hampton Vale School Expansion	2,579	2,275
Hampton College – Phase 2	7,692	907
Nene Park Academy	14,443	3,554
Queens Drive School Extension	1,247	962
Stanground College	22,573	5,016
Stanground South – New School	3,700	546
Thomas Deacon Academy	7,741	6,505
Other School Sites	2,066	956
Total	97,808	34,379

24 Revaluations

The Council has a rolling programme that ensures that all Property, Plant and Equipment is measured at fair value and is revalued at least every four years. The valuations in 2012/13 were carried out by Peterborough Serco Strategic Partnership (PSSP) and Wilks Head & Eve (WHE). Valuations of land and buildings were carried out in accordance with the methodologies and bases for estimation set out in the professional standards of the Royal Institution of Chartered Surveyors. In addition to the rolling four year programme each year WHE also assess the whole of the Council's property portfolio to consider if there would be any valuation changes as a result of the current economic climate at the time. Valuations of vehicles, plant and equipment are based on current prices where there is an active second-hand market or latest list prices adjusted for condition of the asset.

The significant assumptions applied in estimating the fair values are:

- Market Value – the estimated amount for which a property should exchange on the date of valuation between a willing buyer and a willing seller in an arm's-length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion.
- Existing Use Value – as above but including an assumption that the buyer is granted vacant possession of all parts of the property required by the business and disregarding potential alternative uses and any other characteristics of the property that would cause its Market Value to differ from that needed to replace the remaining service potential at least cost.

- Depreciated Replacement Cost – has been used to arrive at Existing Use Value where specialised property is valued. It is the least cost of purchasing the remaining service potential of the asset at the date of valuation.

	Other Land & Buildings	Vehicles, Plant & Equipment	Surplus Assets	Total
Valued at fair value as at:	£000	£000	£000	£000
31 March 2013	5,471	(6)	(292)	5,173
31 March 2012	26,914	(26)	(1,172)	25,716
31 March 2011	4,956	(73)	19,443	24,326
31 March 2010	12,871	116	919	13,906
Prior 31 March 2009	43,836	-	894	44,730
Total Valuation	94,048	11	19,792	113,851

25 Impairment Losses

Impairment losses and impairment reversals charged to the Surplus / Deficit on the Provision of Services line and to Other Comprehensive Income and Expenditure are disclosed in Notes 19 and 21 which reconcile the movement over the year for Property, Plant, and Equipment (PPE) and Intangible Asset balances respectively.

During 2012/13 Bridge House Offices were demolished as part of the wider Riverside Opportunity Area project. As a result of this regeneration project the Council has recognised an impairment loss of £1.9m, and changed the asset classification from PPE - Other Land & Buildings to Investment Properties therefore requiring different valuation methodologies to be applied. The impairment loss has been charged to the Support Services line in the Comprehensive Income and Expenditure Statement.

The former school site of John Mansfield previously declared surplus was enhanced in 2012/13. Whilst capital expenditure of £1.1m has been spent on improving the asset it has not significantly increased the value of the building under the current valuation methodology. The Council has recognised an impairment loss of £1.1m, which has been charged to the Financing & Investment Income & Expenditure line in the Comprehensive Income and Expenditure Statement.

Within 2012/13 two new schools have commenced construction. Both of these schools will be academies from June 2014 so when the works are completed will not appear on the Councils balance sheet. Under IAS 36 - Impairment of Assets, the Council should not carry an asset above its recoverable amount. As a result of the schools being future academies the recoverable amount is nil because the remaining service benefit the Council will receive from these assets is zero as academies report to direct to Government. The council has impaired the construction costs by £11.9m and this has been charged to the Education & Children's Services line in the Comprehensive Income and Expenditure Statement.

26 Capital Expenditure and Capital Financing

The total amount of capital expenditure incurred in the year is shown in the following table (including the value of assets acquired under finance leases), together with the resources that have been used to finance the expenditure. Where capital expenditure is to be financed in future years by charges to revenue as assets are used by the Council, the expenditure results in an increase in the Capital Financing Requirement (CFR), a measure of the capital expenditure incurred historically by the Council that has yet to be financed.

2011/12 £000		2012/13 £000
230,611	Opening Capital Financing Requirement	250,184
-	Adjustment for previous years roundings'	4
230,611	Revised Opening Capital Financing Requirement	250,188
27,093	Property, Plant and Equipment (Note 19)	51,502
31,665	Assets Under Construction (Note 19)	21,894
228	Investment Properties (Note 20)	582
-	Assets Held for Sale (Note 22)	36
457	Intangible Assets (Note 21)	1,700
16,254	Revenue Expenditure Funded from Capital under Statute (REFCUS)	36,019
470	Capitalisation Direction	-
1,140	Loans to Third Parties	-
	Sources of Finance	
(7,050)	Capital Receipts	(5,059)
(41,354)	Capital Grants & Contributions	(31,415)
(9,330)	Sums set aside from revenue (inc.direct revenue financing and (MRP))	(9,349)
<u>250,184</u>	Closing Capital Financing Requirement	316,098
	Explanation of movements in year	
	Increase in underlying need to borrow:	
-	Supported borrowing	-
28,789	Unsupported / Prudential borrowing	72,688
114	Assets acquired under finance leases	2,571
	Decrease in underlying need to borrow:	
(9,330)	MRP	(9,349)
<u>19,573</u>	Increase in Capital Financing Requirement	65,910

Revenue Expenditure Funded from Capital under Statute (REFCUS) is expenditure incurred during the year that may be classified as capital for funding purposes. As this expenditure does not form an asset to be carried on the Council's balance sheet it is charged to the relevant service line in the Comprehensive Income and Expenditure Statement. For 2012/13 this expenditure is £36.0m compared with £16.2m in 2011/12. This increase is shown in the following table.

A significant amount of the expenditure for 2012/13 relates to school development works. This is due to the combined pressures of increased demand for school places required in the city and the transfer of schools to academy status. Academies are the responsibility of Government and as such do not form part of the Council's asset base, and therefore expenditure is treated as 'REFCUS'.

Revenue Expenditure Funded from Capital Under Statute	Value of Expenditure £000
Disabled Facility and Assistance Grants	2,562
Nene Park Academy	10,872
Stanground College	15,156
St Michaels' Primary School	3,177
All Saints Primary School	1,567
Eye Primary School	817
Other Schools Expenditure	1,551
Other Expenditure	317
Total	36,019

2011/12 £000	Reconciliation of Grant Funding Applied to Capital Financing	2012/13 £000
32,173	Grants Received in year (Note 12)	27,391
5,946	Grants used to Fund Revenue Expenditure Funded from Capital under Statute	3,737
2,513	Adjustments made to Classification of Grant Received 2010/11	-
(340)	Grants Received in year not applied in year	(140)
1,062	Grants applied from Capital Grants Unapplied Account	427
41,354	Total Grants & Contributions applied	31,415

2011/12 £000	Body of Grant Funding Applied	2012/13 £000
41	Big Lottery Fund	-
1,478	Department for Communities & Local Government	887
-	Department for the Environment, Farming and Rural Affairs	5,213
5,455	Department for Transport	8,350
6,058	Department of Education	468
3	East of England Development Agency	-
10	English Partnerships	25
25,092	Partnership for Schools	10,073
39	The Home Office	-
803	Various	-
163,041	Total Grants Applied	25,016
1,193	Section 106 Contributions	5,325
1,182	Third Party Contributions	1,074
41,354	Total Contributions applied	6,399
41,354	Total Grants & Contributions applied	31,415

27 Private Finance Initiatives (PFI) and Similar Contracts

On the 31 July 2006 the Council signed a PFI agreement with IIC BY Education (Peterborough Schools) Limited for the delivery of new and improved facilities and services for three secondary schools in Peterborough. This agreement required the contractor to construct the new Voyager secondary school, and to extend and refurbish two existing secondary schools (Jack Hunt and Ken Stimpson). The contractor will maintain these three schools and provide them with a range of other services such as caretaking, cleaning and catering for the next 30 years. The three schools and any plant and equipment installed in them at the end of the contract will be transferred to the Council for nil consideration.

One of the schools has Foundation status and another has transferred to Academy status therefore in line with the Audit Commission guidance the associated assets are not recognised on the Council's Balance Sheet. The value of the school recognised on the Council's Balance Sheet is £9.9m.

The Council makes an agreed payment each year which is increased each year by inflation and will be reduced if the contractor fails to meet availability and performance standards in any year but which is otherwise fixed. Payments remaining to be made under the PFI contract at 31 March 2013 (excluding any estimation of inflation and availability / performance deductions) are as follows:

Repayment of:	Finance Lease Liability	Interest	Service Charges	Total
	£000	£000	£000	£000
Payable:				
In 2013/14	1,457	2,981	3,444	7,882
Within two to five years	5,242	10,532	16,560	32,334
Within six to ten years	4,717	9,851	27,822	42,390
Within 11 to 15 years	6,632	8,201	30,019	44,852
Within 16 to 20 years	10,106	6,401	31,125	47,632
Within 21 to 25 years	10,321	1,390	32,797	44,508
Total	38,475	39,356	141,767	219,598

Although the payments made to the contractor are described as unitary payments, they have been calculated to compensate the contractor for the fair value of the services they provide, the capital expenditure incurred and interest payable whilst the capital expenditure remains to be reimbursed. The liability to the contractor for capital expenditure incurred is as follows:

31 March 2012		31 March 2013
£000		£000
(41,385)	Balance brought forward	(39,943)
1,442	Lease liability redemption in the year	1,468
(39,943)	Value of Total Liability carried forward	(38,475)
(1,468)	Short Term Liability	(1,457)
(38,475)	Long Term Liability	(37,018)
(39,943)	Value of Total Liability carried forward	(38,475)

28 Council Leasing Arrangements

Council as Lessee - Finance Leases

The Council has acquired land, buildings, vehicles and equipment under finance leases, shown in the table below.

31 March 2012		31 March 2013	
£000	Council as Lessee - Finance Leases	£000	
2,833	Other Land & Buildings	2,833	
1,379	Vehicles, Plant Furniture & Equipment	2,983	
4,212	Total	5,816	

Two land leases held on 999 year leases, two school leases for 125 years and a retail property held on a 99 year lease are at peppercorn rent, whilst the two industrial site units are carried on the Council's Balance Sheet as Investment Properties at the net book values shown above.

The vehicles and equipment acquired are carried as Property, Plant and Equipment in the Balance Sheet at the net amounts also shown table above.

The Council is committed to making minimum payments under these leases comprising settlement of the long-term liability for the interest in the property acquired by the Council and the finance costs that will be payable by the Council in future years while the liability remains outstanding. The minimum lease payments are made up of the following amounts:

31 March 2012		31 March 2013	
£000	Finance Lease Liabilities (net present value of minimum lease payments)	£000	
799	Current	608	
2,893	Non-current	4,702	
21,105	Finance costs payable in future years*	20,924	
24,797	Minimum lease payments	26,234	

* Non-Peppercorn leases range from five to ninety three years

The minimum lease payments will be payable over the following periods:

31 March 2012			31 March 2013	
Min. Lease Payment	Finance Lease Liabilities	Minimum lease payments	Min. Lease Payment	Finance Lease Liabilities
£000	£000		£000	£000
1,274	799	Not later than one year	1,026	608
1,591	371	Later than one year & not later than five years	2,883	1,532
21,932	2,522	Later than five years *	22,325	3,170
24,797	3,692	Total	26,234	5,310

* Non-Peppercorn leases range from five to ninety three years

There are no contingent rents payable as all rents are adjusted after any rent amendments are made and the tables above reflect the current lease rental positions.

Of the investment properties held under these finance leases, the Council has sub-let individual units. At 31 March 2013 the minimum payments expected to be received under these sub-leases was £293k (£305k in 2011/12). The majority of the vehicles held under finance leases were used within City Services. When this department was transferred to Enterprise Peterborough the leases were retained and the vehicles sub-leased to Enterprise Peterborough. In order to achieve Best Value from the charges made by Enterprise Peterborough to the Council these sub-leases are at zero cost, offset by a reduction in the overall contract sum paid.

Council as Lessee - Operating Leases

The majority of the Council's operating leases are for land and buildings, however there is a small number of vehicles and equipment held under operating leases.

The future minimum lease payments due under non-cancellable leases in future years are:

31 March 2012		31 March 2013	
£000	Council as Lessee - Operating Leases	£000	
847	Not later than one year	811	
2,948	Later than one year & not later than five years	2,792	
795	Later than five years	775	
4,590	Total	4,378	

The amount charged to Cost of Services in the Comprehensive Income and Expenditure Statement during the year in relation to these leases is shown in the table below:

31 March 2012		31 March 2013	
£000	Council as Lessee - Operating Leases	£000	
870	Minimum lease payments	1,045	
-	Contingent rents	-	
(99)	Sublease payment receivable	(174)	
771	Total	871	

Council as Lessor - Finance Leases

The Council has leased land on long term leases, these include playing fields and Nene Park. The Council has also leased schools to various trusts as the schools transferred to Academy status, these schools include Nene Park Academy and Fulbridge Primary School. The leases are at peppercorn or minimal value rents only.

Council as Lessor – Operating Leases

The Council leases out property under operating leases for the following purposes:

- For the provision of community services, such as sports facilities and community centres
- For economic development purposes to provide suitable affordable accommodation for local businesses
- To generate an income from property owned as investment property

The future minimum lease payments receivable under non-cancellable leases in future years are:

31 March 2012		31 March 2013	
£000	Council as Lessor - Operating Leases	£000	
3,140	Not later than one year	2,904	
10,294	Later than one year & not later than five years	10,159	
39,527	Later than five years*	36,277	
52,961	Total	49,340	

* Above operating leases range from five to 114 years

There are no contingent rents payable as all rents are adjusted after any rent amendments are made and the tables above reflect the current lease rental positions.

29 Financial Instruments

The gains and losses recognised in the Comprehensive Income and Expenditure Statement in relation to financial instruments are made up as follows:

2011/12 £000		2012/13 £000
	Financial Assets	
222	Interest income	257
40	Impairment adjustment (Note 30)	31
262	Total for Financial Assets (Note 10)	288
	Financial Liabilities	
(3,522)	Interest payable relating to PFI	(3,470)
(6,749)	Interest payable on borrowings	(6,807)
(10,271)	Total for Financial Liabilities (Note 10)	(10,277)
(10,009)	Net loss for the year	(9,989)

The Debtors figure includes a long term debtor for the Local Authority Mortgage Scheme (LAMS). In December 2011 the Council advanced £1m to Lloyds Banking Group as part of this scheme. LAMS is aimed at first time buyers and the advance reflects the Council's share of financial assistance through the provision of an indemnity. This indemnity will be in place for a fixed five year period, at which point the advance will be returned to the Council plus an amount of interest. As at 31 March 2013 the total commitment against the £1m indemnity is £942,628.

The borrowings and investments disclosed in the Balance Sheet are made up of the following categories in the following table.

Financial Instruments Balances	31 March	Long Term	Current
		£000	£000
Investments - Loans & Receivables	2013	143	141
	2012	158	438
	2011	457	449
Debtors - Loans & Receivables	2013	2,332	11,221
	2012	2,353	12,681
	2011	2,334	24,842
Borrowings - Financial Liabilities at Amortised Cost	2013	(153,387)	(57,327)
	2012	(115,387)	(29,213)
	2011	(115,387)	(20,883)
Other Long Term Liabilities - PFI & Finance Lease Liabilities	2013	(41,872)	-
	2012	(41,518)	-
	2011	(43,668)	-
Creditors - Financial Liabilities at Amortised Cost	2013	(738)	(16,798)
	2012	(1,927)	(12,526)
	2011	-	(8,385)

30 Fair Value of Assets and Liabilities carried at Amortised Cost

Financial liabilities and financial assets represented by loans and receivables are carried in the Balance Sheet at amortised cost. Their fair value has been assessed by calculating the present value of the cash flows that will take place over the remaining term of the instruments, using the following assumptions:

- PWLB interest rates for new loans at 31 March 2013 have been used for loans from the PWLB

- the prevailing rate of a similar instrument with a published market rate has been used as the discount factor for other loans receivable and payable
- no early repayment is recognised
- the Fair Value of trade debtors is taken to be the invoiced or billed amount

The Loans and Receivables value includes trade debtors. The Fair Values calculated are as follows:

Fair Value of Assets and Liabilities Carried at Amortised Cost	31 March	Carrying Amount £000	Fair Value £000
Loans & Receivables	2013 2012	11,505 13,277	11,505 13,277
Long Term Debtors	2013 2012	2,332 2,353	2,332 2,353
Financial Liabilities	2013 2012	(227,512) (157,126)	(240,906) (161,185)
Long Term Creditors	2013 2012	(42,610) (43,445)	(42,610) (43,445)
The Fair Value of the financial liabilities in 2012/13 is higher than the carrying amount because the Council's portfolio of loans includes a number of fixed rate loans where the interest payable is higher than the rates available for similar loans at the Balance Sheet date.			

74

31 Nature and Extent of Risks Arising from Financial Instruments

The Council's activities expose it to a variety of financial risks:

- Credit risk – the possibility that other parties might fail to pay amounts due to the Council.
- Liquidity risk – the possibility that the Council might not have funds available to meet its commitments to make payments.
- Market risk – the possibility that financial loss might arise for the Council as a result of changes in such measures as interest rates and money market movements.

The Council's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the resources available to fund services. Risk management is carried out by the Capital and Treasury Team, under policies approved by the Council in the Annual Treasury Management Strategy. The Council provides written principles for overall risk management, as well as written policies covering specific areas, such as interest rate risk, credit risk and the investment of surplus cash.

Credit risk

Credit risk arises from deposits with banks and financial institutions, as well as credit exposures to the Council's customers.

The risk is minimised through the Annual Investment Strategy, which requires that investments are not made with financial institutions unless they meet minimum credit criteria in accordance with the Fitch, Moody's and Standard & Poors Credit Ratings Services. This Strategy also imposes a maximum sum to be invested with a financial institution located within each category.

The 2012/13 Annual Investment Strategy sets out the credit criteria below although the Council actually minimised the risk further by only investing with the Debt Management Office, its banking provider and other Local Authorities.

The credit criteria in respect of financial assets held by the Council are as follows:

- Deposits could be made with banks and other financial institutions that have been rated by recognised independent credit rating agencies with a minimum score of “A”, with £100 million of the total amount deposited in the highest rated category.
- Deposits can be made with other institutions that have not found it necessary to maintain a credit rating e.g. certain building societies and local authorities, and these are subject to an assessment of risk that is carried out internally. Deposits to these bodies are limited to £50 million in total.
- No more than £15 million is held with any one banking institution, except for the Debt Management Office (DMO), regardless of standing or duration, and a range of counterparties that operate in different sectors in the UK and European economies is used to reduce risk exposure.
- All the counterparties used are licensed to accept deposits in the United Kingdom and are regulated by the Financial Services Authority.
- Creditworthiness advice and market intelligence is received from its treasury advisors, Sector Treasury Services Limited.

The 2013/14 Annual Investment Strategy reflects the rapidly changing economic climate and the changes in the credit

ratings of the financial institutions. The Strategy therefore includes a revision of the credit criteria stated above.

In 2008/09 the Council had two investments with Icelandic Banks, which went into administration in October 2008. The sum invested, £3m, has been impaired taking into account information available at the time in relation to likely recovery of principal.

The following table summarises the Council’s maximum exposure to credit risk, based on the experience of default and uncollectability over the last five financial years, adjusted to reflect current market conditions.

Deposits with UK banks & building societies (excluding Icelandic Banks)		£000
Amount as at 31 March 2013		10,500
Historical Experience of Default %		-
Historical Experience Adjusted for Market Conditions as at 31 March 2013		-
Estimated Max Exposure to Default & Uncollectability Total		-
Estimated Max Exposure at 31 March 2013		-

Prior to 2008/09 and the experience in relation to the investments in banks with Icelandic parents, the Council had no experience of default. The following table shows the original invested amount, and current carrying value following impairment adjustments required from improved recovery rates.

The impairment has been revised in 2012/13 to reflect the improved recovery rates now expected, which is 86p to 90p in the £ for Heritable Bank (86p to 90p, 2011/12) and 84p to 86.5p in the £ for Kaupthing Singer & Friedlander, (81p to 86p, 2011/12).

Bank	Heritable Bank	Kaupthing Singer & Friedlander Limited	Total
	£000	£000	£000
Date Invested	02/04/07	03/04/07	
Interest Rate	6.07%	5.90%	
Principal Amount Invested	1,000	2,000	3,000
Interest Accrued 2008/09	61	117	178
Carrying Amount	1,061	2,117	3,178
Impairment 2008/09	(326)	(1,190)	(1,516)
Impairment 2009/10	61	310	371
Impairment 2010/11	-	325	325
Impairment 2011/12	25	15	40
Impairment 2012/13	(5)	36	31
Total Impairment to Date	(245)	(504)	(749)
Recoverable Amount	816	1,613	2,429
Principal Default *	2.30%	4.61%	

* *Principal Default – amount of defaulted loan as expressed as a % of the Council's average cash balance over the last six years*

Council tax and business rates are statutory charges and the Council monitors total and individual arrears from taxpayers taking effective action to minimise losses on collection. Other customers of the Council's goods and services are assessed, taking into account their financial position, past experience and other factors, with individual credit limits being set in accordance with internal ratings in accordance with parameters set by the Council. The Council makes prudent financial provision for bad debts based on an assessment of the risks for each type of debt and the age of those debts.

No credit limits were exceeded during the reporting period and the Council does not expect any losses from non-performance by any of its counter parties in relation to deposits and bonds.

The Council has therefore reviewed all its Financial Instruments and adjusted its bad debt provision accordingly.

The Council does not allow credit for customers, and the £10m debtors balance can be analysed by age as follows:

2011/12		2012/13
£000	Age of Trade Debt	£000
5,154	Less than three months	5,409
718	Three to six months	1,006
872	Six months to one year	885
2,667	More than one year	3,168
9,411	Total	10,468

Liquidity risk

As the Council has ready access to borrowings from the Public Works Loans Board (PWLB) and the money market generally, there is no significant risk that it will be unable to raise finance to meet its commitments under financial instruments. Instead, the risk is that the Council will be bound to replenish a significant proportion of its borrowings at a time of unfavourable interest rates.

The Council's strategy to reduce this risk, is to spread the profile of maturing loans to ensure that a significant number do not all mature in the same year. The Council's cashflow is forecast, in detail, for up to 12 months ahead and more broadly for the succeeding nine years. The majority of the Council's in-hand balances are revenue in nature and consequently a significant proportion of its investment portfolio is held repayable on demand or on notice to accommodate cash

outflows. Cash surpluses are typically deposited to dates when cash shortages are expected to occur.

The maturity analysis of financial liabilities is as follows:

2011/12 £000	Maturity analysis of financial liabilities	2012/13 £000
(41,739)	Less than one year	(74,125)
(2,608)	Between one and two years	(12,448)
(6,406)	Between two and five years	(13,410)
(149,820)	More than five years	(170,139)
<u>(200,573)</u>	Total	<u>(270,122)</u>

All trade and other payables are due to be paid in less than one year.

Market risk

Interest rate risk

The Council is exposed to significant risk in terms of its exposure to interest rate movements on its borrowings and investments. Movements in interest rates have a complex impact on the Council. For instance, a rise in interest rates would have the following effects:

- borrowings at fixed rates – the fair value of the borrowings will fall
- investments at fixed rates – the fair value of the assets will fall
- borrowings at variable rates – the interest expense charged to the (Surplus) / Deficit on the Provision of Services will rise
- investments at variable rates – the interest income credited to the (Surplus) / Deficit on the Provision of Services will rise

Borrowings are not carried at fair value, so nominal gains and losses on fixed rate borrowings would not impact on the (Surplus) / Deficit on the Provision of Services or Other Comprehensive Income and Expenditure. However, changes in interest payable and receivable on variable rate borrowings and investments will be posted to the Comprehensive Income and Expenditure Statement and affect the General Fund Balance. Movements in the fair value of fixed rate investments that have a quoted market price will be reflected in Other Comprehensive Income and Expenditure.

The Council has a number of strategies for managing interest rate risk as follows:

- the borrowing preference is to negotiate fixed rate terms at acceptable rates for budget certainty
- depending upon economic conditions the Council may maintain variable rate short or long term borrowings to offset the risk of diminishing receipts from its investment portfolio or at times when current fixed interest rate levels are deemed to be too high
- variable interest rate borrowings should not exceed 25% of total gross borrowing
- during periods of falling interest rates, and where economic circumstances make it favourable, fixed rate loans may be repaid early to exploit market conditions and further reduce the interest payable burden
- the risk of increasing interest outlay is ameliorated by the fact that a proportion of government grant payable on financing costs will normally move with prevailing interest rates or the Council's cost of borrowing and provides compensation for a proportion of any higher costs

The Capital and Treasury Team assesses interest rate exposure which feeds into the setting of the annual budget and is used to update the budget during the year. This allows any adverse changes to be accommodated. The analysis will also advise whether new borrowing taken out is at fixed or variable rate.

According to this assessment strategy, at 31 March 2013, if interest rates had been 1% higher with all other variables held constant, the financial effect would be a decrease in the Fair Value of Fixed Rate Borrowing Liabilities by £25.1m but this would have no impact on the (Surplus) / Deficit on the Provision of Services or Other Comprehensive Income and Expenditure.

The impact of a 1% fall in interest rates would be as above but with the movements being reversed.

Price Risk

The Council does not invest in equity shares and hence currently has no exposure to losses arising from movements in the prices of the shares.

The Council has a £1 share in its' subsidiary company, Blue Sky Peterborough Limited. The Council is not exposed to price risk through this holding.

Foreign Exchange Risk

The Council has no financial assets or liabilities denominated in foreign currencies and thus has no exposure to loss arising from movements in exchange rates.

32 Inventories

31 March 2011 £000	31 March 2012 £000	Inventories	31 March 2013 £000
187	-	City Services Stores	-
185	203	Westcombe Industries Stock	230
112	182	Other Stock Balances	111
484	385	Total	341

Landfill Allowance Trading Scheme

The balance of stock was not deemed to have a value as at 31 March 2013 (also nil value in 2011/12).

33 Debtors

31 March 2011 £000	31 March 2012 £000	Debtors (Each item is net of impairment)	31 March 2013 £000
13,546	13,134	Central Government Departments	16,361
7,709	1,331	NNDR reimbursement from pool	2,409
502	440	Cambridgeshire County Council	842
178	356	National Heritage (Lottery)	-
2,004	2,237	Cross Keys Homes	1,474
-	4,005	Peterborough Primary Care Trust	174
4,738	5,440	Council Tax Arrears	5,499
2,466	4,348	Payments in Advance	1,189
17,451	16,105	General Debtors	18,079
48,594	47,396		46,027
		Outstanding Balances on Loans	
42	35	Loans to Employees (Car Purchase)	28
48,636	47,431	Total Debtors	46,055

34 Current Intangible Assets

31 March 2011 £000	31 March 2012 £000	Current Intangible Assets	31 March 2013 £000
-	-	Carbon Reduction Allowances	5
-	-	Total	5

35 Creditors

31 March 2011 £000	31 March 2012 £000	Creditors	31 March 2013 £000
(415)	(2)	Central Government Departments	-
-	(12,189)	Peterborough Primary Care Trust	-
(460)	(564)	Council Tax Overpaid	(539)
(1,104)	(711)	NNDR Overpaid	(465)
(7,198)	(2,494)	Deposits / Receipts in Advance	(2,789)
(4,519)	(4,298)	Accrual Accumulated Absences	(3,944)
(43,824)	(45,236)	General Creditors	(59,397)
(57,520)	(65,494)	Total Creditors	(67,134)

36 Capital Grants Receipts in Advance

The Council has received a number of grants and contributions that have yet to be recognised as income as they have conditions attached to them that will require the monies or property to be returned to the giver. The balances at the year-end are as follows:

31 March 2011 £000	31 March 2012 £000	Capital Grants Receipts in Advance	31 March 2013 £000
(14,589)	(4,962)	Department of Education	(4,405)
(31)	-	Other Grants Received in Advance	-
(219)	(470)	Homes and Communities Agency	(418)
(126)	(39)	Other Third Party Contributions	(6)
(2,762)	(3,315)	Partnership for Schools	(776)
(7,882)	(8,134)	Section 106 Contributions	(10,015)
(25,609)	(16,920)	Total	(15,620)
-	(500)	HCA - South Bank Redevelopment	-
(25,609)	(17,420)	Total Capital Grants Receipts in	(15,620)

37 Provisions

1 April 2011	Provision Description	31 March 2012	Additional Provision	Payment from Provision	Released back to CIES	31 March 2013
£000		£000	£000	£000	£000	£000
	Short Term Provisions					
(276)	<u>Insurance Claims</u> – This represents the current balance set aside to meet the expected total cost of uninsured losses arising from public liability, employer’s liability and property damage. The amount and timing of these payments are uncertain. This provision is split into short and long term	(402)	(934)	92	79	(1,165)
-	<u>Payroll</u> - Redundancy related payments, regarding decisions made in 2012/13 but which will be paid in 2013/14	(559)	(883)	559	-	(883)
(332)	<u>Charges from suppliers which are uncertain or in dispute</u> - These represent a charges from suppliers that are of an uncertain amount	(153)	-	84	-	(69)
(854)	<u>Legal/Grant Penalty Payment</u> - Under the terms of a Grant that has been received in full, there is a possibility that the Council may have to repay a proportion under penalty clauses. The additional provision is for a potential fine against the council and for legal claims which are dependant on the result of a government or court decision	(348)	(27)	93	15	(267)
(30)	<u>Children’s Services</u> – Costs dependant on the results of an investigation	(29)	-	-	29	-
-	<u>Land Charges Litigation</u> – Following the Information Commission Ruling, personal search agencies are now able to reclaim the amounts paid for additional information on the land charges register	(475)	-	41	275	(159)
-	<u>Carbon Reduction Commitment Scheme (CRC)</u> – The obligation of the Council for the purchase of CRC allowances for 2012/13	(260)	(267)	235	25	(267)
-	<u>HMRC – SIPS and Panel Advisors</u> – HMRC ruled that School Improvement Partners and Panel Advisors were Office Holders of the Council, and so any tax and national insurance is due on any payments made	(16)	-	16	-	-
<u>(1,492)</u>	Total Short Term Provisions	(2,242)	(2,111)	1,120	423	(2,810)

88

1 April 2011	Provision Description	31 March 2012	Additional Provision	Payment from Provision	Released back to CIES	31 March 2013
£000		£000	£000	£000	£000	£000
	Long Term Provisions					
(68)	<u>Social Care Repayment</u> - Following a House of Lords Judgement, services provided under Section 117 of the Mental Health Act were adjudged to be free. The provision represents the liability due to be repaid	(68)	-	-	-	(68)
(1,507)	<u>Insurance Claims</u> – see above comments	(1,410)	(8)	446	386	(586)
(36)	<u>Appointee Provision</u> – Client money held on account to be repaid	-	-	-	-	-
(1,611)	Total Long Term Provisions	(1,478)	(8)	446	386	(654)
(3,103)	Total Short and Long Term Provisions	(3,720)	(2,119)	1,566	809	(3,464)

38 Cash Flow Statement – Operating Activities

The cash flows for operating activities include the following items:

2011/12 £000	2012/13 £000
(299) Interest Received	(349)
10,315 Interest Paid	10,206

39 Cash Flow Statement – Investing Activities

The cash flows for investing activities include the following items:

2011/12 £000	2012/13 £000
58,144	70,203
-	-
17,600	34,395
(6,094)	(6,365)
(349)	(343)
-	-
69,301	97,890

40 Cash Flow Statement – Financing Activities

The cash flows for financing activities include the following items:

2011/12 £000		2011/12 £000
(10,000)	Cash Receipts of Short & Long Term Borrowing	(66,000)
-	Other receipts from Financing Activities	-
2,544	Cash Payments for the Reduction of the Outstanding Liabilities relating to Finance Leases and On-Balance Sheet PFI Contracts	2,267
1,619	Repayments of Short- & Long-Term Borrowing	-
5,934	Other Payments for Financing Activities	7,111
97	Net cash flows from financing activities	(56,622)

41 Cash Flow Statement – Cash and Cash Equivalents

The balance of Cash and Cash Equivalents is made up of the following elements:

2010/11 £000	2011/12 £000		2012/13 £000
18,272	3,500	Short Term Cash Investments	10,500
79	65	Petty Cash & Imprest	75
(2,717)	(295)	Bank Current Accounts	(9,821)
15,634	3,270	Total Cash & Cash Equivalents	754

42 Trust Funds

The Council administers 14 trust funds for the benefit of children in specific schools or in care. The total value invested as at 31 March 2013 was £92,971 (£92,508 at 31 March 2012). Interest is allocated to the funds at bank base rate.

The Council acts for 12 Adults under Court of Protection administration orders. The total value of funds is £16,836 (£14,878 at 31 March 2012) all invested internally.

The Council administered a Trust Fund to support services users and their families with HIV/AIDS. In the main the Trust Fund was used to fund items such as courses, therapies and support sessions that were not provided through the main HIV/AIDS budget. Due to a change in the way the Council delivers HIV/AIDS services the fund was closed at the end of 2012/13 and the value of the fund is now zero (£11,141 at 31 March 2012).

The Council also has the role of Appointee for Clients' monies where it is responsible for managing the financial affairs of 167 adults and older people (152 at 31 March 2012). The total Client funds at 31 March 2013 was £1,115k (£967k at 31 March 2012).

The Council acts as the sole trustee for the Peterborough Museum and Art Gallery, a registered charity. From 1 May 2010 the delivery and operation of cultural services, including Peterborough Museum and art Gallery were transferred to Vivacity. However the Council remains sole Trustee.

These Trust Funds are not included in the Council's balance sheet.

43 Contingent Liabilities

- There are a number of issues relating to decisions taken by the Council that might result in claims being made against the Council. Those relating to Planning may end up in Appeals or Judicial Review and those relating to dismissals of staff for disciplinary and redundancy reasons may end up at Employment Tribunals. At this stage, there is no certainty that costs will be awarded against the Council and, therefore, nothing has been included in the Accounts for any of these issues. Additionally, there are Adoption processes in progress at year end that, when completed, may result in future financial implications for the Council.
- There are potential unknown environmental issues relating to land and buildings that the Council owns, or has owned, such as contaminated land or asbestos in buildings, for which costs are difficult to estimate.
- The Council has a disposal programme which may include sale of assets that could be subject to a claw back agreement. This would mean that a proportion of the sale proceeds would require payment to the interested party.
- As part of the delivery of services, expenditure is incurred by the Council which in turn may be funded directly from grants. Some grants are allocated to the Council for specific purposes, and as such may require an audit certification to be completed to ensure the grant had been correctly applied. Reimbursement of grants may be necessary if it is found that the Council has not met the term and conditions of use of the grant. Amount and timings are dependent upon the results of any claim certification.
- Under a 1987 Bond Issue North Housing Association Ltd (now Home Housing) raised finance to carry out development in a number of local authority areas. The

Peterborough Development Corporation entered into an agreement with North Housing Association Ltd to carry out development in the Peterborough area. This agreement was subsequently novated to Peterborough City Council. The Local Authorities agreed to indemnify bond holders against a fixed percentage of indebtedness under the bonds issued, against which North Housing Association Ltd gave a counter indemnity to the Local Authorities of the same amount. Peterborough City Council's share of the indemnity is 11.72% of the Issue which equates to £9.9m.

- A group of Property Search Companies are seeking to claim refunds of fees paid to the Council to access land charges data. Proceedings have not yet been issued. The claimants have also intimated that they may bring a claim against all English and Welsh local authorities for alleged anti-competitive behaviour. It is not clear what the value of any such claim would be as against the Council. It is possible that additional claimants may come forward to submit claims for refunds, but none have been intimated at present

44 Accounting Standards that have been Issued but have Not Yet Been Adopted

The adoption of amendments to IAS 19 Employee Benefits by the Code will result in a change of accounting policy. This amendment will come into effect from 1 April 2013, and will amend the definition of the components of defined benefit costs. For current presentation see Note 7, page 16. The impact of this change is to increase the income statement by £2.2m.

45 Critical Judgement in Applying Accounting Policies

In applying the accounting policies, set out from page 65, the Council has had to make certain judgements about complex transactions or those involving uncertainty about future events. The critical judgements made in the Statement of Accounts are:

- There remains uncertainty on future levels for funding for local government. The local government settlement was announced in December 2012 for 2013/14 and provisionally for 2014/15 financial years. The Council has produced a ten year Medium Term Financial Strategy (MTFS), approved in early March 2013, which anticipates future funding reductions and the actions which will be taken in order to achieve a balanced budget. However, the impact of future funding announcements, of both the 'Budget 2013' of late March which announced additional funding cuts for 2014/15 and the 'Spending Review' due in June 2013, means that there remains financial uncertainty of local government funding arrangements from 2014/15 onwards. The Council has determined that given the uncertainty there is not sufficient indication of any additional impact on the accounts or accounting policies.
- During 2010/11 the coalition government invited all schools in England to become Academies and encouraged parents to set up their own schools, called free schools. Some schools within the Peterborough area already have Academy status, two transferred status during 2012/13, and some are expected to convert in future years. Academies do not fall within the remit of the Local Education Authority. When a school attains Academy status, the Council is required to remove assets linked to the school from the Balance Sheet and no longer consolidates the income and

expenditure of that school into the Comprehensive Income and Expenditure Statement.

- The Council has applied its judgement in the classification of investment properties. Investment properties are held to earn rentals or for capital appreciation or both. Some properties earn rentals but are held for regeneration purposes or wider socio-economic reasons. Where this is the case, these properties have been classed as Property, Plant and Equipment. Further information can be found in Note 20, page 39.
- The Council has three arrangements which it has considered against the Group Accounting criteria. The Council has not included these arrangements as Group Accounts in the Statement for the following reasons:
 - Opportunity Peterborough – the company exists to promote and secure regeneration activities within the Peterborough area. Due to the nature of its activities and its small size, the consolidation of the figures would be immaterial and would not add any additional value to the reader of the accounts that a note would not provide. Further information can be found in Note 15 Interest in Companies.
 - Peterborough Museum and Art Gallery – the Council is sole trustee of the trust set up to provide the City with access historic artefacts to promote artistic and general knowledge. Due to the nature of its activities and its small size, the consolidation of the figures would be immaterial and would not add any additional value to the reader of the accounts that a note would not provide. Further information can be found in Note 14 Related Party Transactions.

- Blue Sky Peterborough (BSP) – during the 2011/12 financial year the Council established an Energy Services Company (ESCo), BSP. The aim of this ESCo is to pursue the provision of low and zero-carbon energy schemes with the energy produced available to the Peterborough area for both domestic and business users. As BSP is still in its infancy for 2012/13, the nature of its activities and its small size, the consolidation of the figures would be immaterial and would not add any additional value to the reader of the accounts that a note would not provide. Further information can be found in Note 15 Interest in Companies.

46 Assumptions made about the Future and Other Major Sources of Estimation Uncertainty

The Statement of Accounts contains estimated figures that are based on assumptions made by the Council about the future or that are otherwise uncertain. Estimates are made taking into account historical experience, current trends and other relevant factors. However, because balances cannot be determined with certainty, actual results could be materially different from the assumptions and estimates.

The items in the Council's Balance Sheet at 31 March 2013 for which there is a risk of material adjustment in the forthcoming financial year are as follows:

Item	Uncertainties	Effect if Actual results Differ from Assumptions
Property, Plant and Equipment	Depreciation and amortisation is provided for Property, Plant and Equipment and Intangible assets respectively. This enables the assets to be written down to their residual value over their estimated useful lives and show an appropriate cost of the use of the asset in the Comprehensive Income and Expenditure Statement. Management judgement is used to determine the useful economic lives of the Plant and Equipment and the Council's valuers for lives of Property.	<p>If the useful life of assets is reduced, depreciation increases and the carrying amount of the assets falls.</p> <p>It is estimated that the annual depreciation charge for buildings would increase by £454k for every year that useful life is reduced, which equates to a 2.17% increase in this years depreciation charge.</p>
Property, Plant and Equipment	Property, Plant and Equipment are reviewed for impairment if events or changes in circumstances indicate that the carrying value of the asset may not be recoverable. Each year the Council's valuers complete an impairment assessment. The recoverable amount is then estimated having regard to the application of the concept of materiality.	<p>If an asset is impaired the carrying value of the asset is reduced.</p> <p>It is estimated that a 1% fall in market value would reduce the Council's Property, Plant and Equipment / Investment Properties balance by £712k, which is 0.13% of the Council's total asset base.</p> <p>13% of the Council's asset base is valued at market value, so the impact of a change in market value is limited.</p>
Pensions Liability	Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. These judgements are completed by the Cambridgeshire County Council Pension Fund actuaries.	<p>The effects on net pensions liability of changes in individual assumptions can be measured. For instance,</p> <ul style="list-style-type: none"> • a 0.5% decrease in discount rate assumption would result in a increase in pension liability of 10% or £56m • a 1 year increase in member life expectancy would result in a increase in pension liability of 3% or £16m • a 0.5% increase in the salary increase rate would result in an increase in pension liability of 2% or £13m • a 0.5% increase in the pension increase rate would result in an increase in pension liability of 8% or £42m
Arrears	At 31 March 2013 the Council had a balance of £9.8m for sundry debtors. A review of balances suggested that an impairment of doubtful debts, based on age profile, of 23% or £2.3m was appropriate.	<p>If collection rates were to deteriorate and sundry debt increased by 10% with the same debt profile, and additional contribution of £225k would be set aside as an allowance.</p> <p>If 10% of the debt portfolio was one year older, a contribution of £106k would be set aside as additional allowance.</p>

47 Authorisation of the Accounts

The Executive Director Strategic Resources authorises these accounts to be issued on 24 June 2013.

48 Prior Period Adjustment

For 2012/13 the Council has changed its accounting policy with regards to the inclusion of borrowing costs as part of the valuation calculation required under the depreciated replacement cost (DRC) approach. Where the Council uses DRC as a basis for valuations eg the theatre, libraries and schools, the 'instant build' approach is now applied instead. This means that finance costs are excluded from the valuation of such assets.

The following table shows the difference between the amounts presented in 2011/12 financial statements and the equivalent amounts presented in the 2012/13 financial statements.

Prior Period Adjustment	2011/12 Statements £000	Valuation Policy Change £000	Trading Account Movt. £000	2011/12 Restated £000
Comprehensive Income & Expenditure Statement				
Cultural & Related Services	10,949	563	-	11,512
Education & Children's Services	45,143	205	-	45,348
Environmental & Regulatory Services	9,566	8	-	9,574
Other Operating Expenditure	4,914	57	1,102	6,073
Financing & Investment Income & Expenditure	19,857	-	(1,102)	18,755
Surplus on Revaluation of Non-Current Assets	(26,748)	(2,514)	-	(29,262)
Total Comprehensive Income & Expenditure	11,873	(1,681)	-	10,192
Balance Sheet				
Long Term Assets	561,031	(23,753)	-	537,278
Current Assets	53,824	-	-	53,824
Current Liabilities	(96,949)	-	-	(96,949)
Long Term Liabilities	(365,014)	-	-	(365,014)
Net Assets	152,892	(23,753)	-	129,139
Usable Reserves	(31,558)	-	-	(31,558)
Unusable Reserves	(121,334)	23,753	-	(97,581)
Total Reserves	(152,892)	23,753	-	(129,139)

The Collection Fund and Notes

The Collection Fund is an agent's statement that reflects the statutory obligation for billing authorities to maintain a separate Collection Fund. The statement shows the transactions of the billing authority in relation to the collection from taxpayers and distribution to local authorities and the Government of council tax and non-domestic rates.

2011/12		Collection Fund		Notes	2012/13	
£000	£000				£000	£000
		Income				
(62,881)		Council Tax (net)		1	(65,154)	
(12,593)		Transfer from General Fund - Council Tax benefits			(13,296)	
(85,807)		Business Ratepayers (NNDR)		2	(89,459)	
	<u>(161,281)</u>	Total Income				(167,909)
		Expenditure				
9,490		Cambridgeshire Police Council Precept		3	9,886	
3,239		Cambridgeshire Fire Council Precept		3	3,360	
61,726		Demand by Peterborough City Council		3	64,322	
	<u>74,455</u>	Total Precepts				<u>77,568</u>
84,756		Payment to NNDR National Pool			87,665	
271		NNDR cost of collection allowance			277	
	<u>85,027</u>	Total Business Rates				<u>87,942</u>
1,665		Change in provision		4	2,493	
	<u>1,665</u>	Total Bad and Doubtful Debts				<u>2,493</u>
		Contribution to previous year's estimated surplus:				
-		Cambridgeshire Police Authority			-	
-		Cambridgeshire and Peterborough Fire Authority			-	
-		Peterborough City Council			-	
	<u>-</u>	Total Surplus Distributed				<u>-</u>
	<u>161,147</u>	Total Expenditure				<u>168,003</u>
	<u>(134)</u>	Deficit / (Surplus) for the year				<u>94</u>

1 Calculation of Council Tax Base

Council Tax Band	Ratio to Band D	No. of Dwellings	Band D Equivalent
A	6/9	33,712	22,475
B	7/9	18,628	14,488
C	8/9	12,575	11,178
D	9/9	7,030	7,030
E	11/9	4,109	5,022
F	13/9	1,768	2,554
G	15/9	852	1,420
H	18/9	67	134
Total		78,741	64,301

The Band D Equivalent shown above is calculated by applying the relevant factor but is before statutory discounts, exemptions, etc., and any allowance for non-payment which is at the discretion of each Council. The tax base used for Council Tax setting purposes after taking account of these factors was 56,651 (55,971 in 2011/12).

With the introduction Council Tax Support in 2013/14 the Grant for Council Tax Support will be paid directly to General Fund rather than being received and transferred to Collection Fund as occurred with the Council Tax Benefit Grant received in 2012/13. The effect of this change will be to decrease the Council Tax Base to 50,158 in 2013/14.

2 National Non-Domestic Rates

As at 31 March 2013 the total national non-domestic rateable value against the 2010 list was £230,369,010

(£230,176,210 at 31 March 2012) linked to 5,589 properties with the national multiplier set at 45.8p.

The amount due is calculated by reference to the actual charge during the year, which changes on a daily basis. The gross charge is further reduced because of reductions due to successful appeals, voids, interest on refunds and reliefs.

3 Precepting Authorities

The Precepting Authorities are those as shown in the statement.

2011/12	Preceptor	Precept / Demand	Share of Deficit at 31 March	2012/13 Total
£000		£000	£000	£000
61,836	Peterborough City Council	64,322	(78)	64,244
9,508	Cambridgeshire Police	9,886	(12)	9,874
3,245	Cambridgeshire Fire	3,360	(4)	3,356
<u>74,589</u>		<u>77,568</u>	<u>(94)</u>	<u>77,474</u>

4 Provision for Doubtful Debts

The provision for doubtful debts for Council Tax stood at £2.8m as at 31 March 2013 against arrears of £8.7m. At 31 March 2012 the provision stood at £2.3m against arrears of £8.2m.

Statement of Accounting Policies

General Principles

The Statement of Accounts summarises the Council's transactions for the 2012/13 financial year and its position at the year end 31st March 2013. The Council is required to prepare an annual Statement of Accounts by the Accounts and Audit regulations 2011, which those Regulations require to be prepared in accordance with proper accounting practices. These practices primarily comprise the Code of Practice on Local Authority Accounting in the United Kingdom 2012/13 and the Service Reporting Code of Practice 2012/13, supported by International Financial Reporting Standards (IFRS) and statutory guidance issued under section 12 of the 2003 Act.

The accounting convention adopted in the Statement of Accounts is principally historical cost, modified by the revaluation of certain categories of non-current assets and financial instruments.

Accruals of Income and Expenditure

Activity is accounted for in the year that it takes place, not simply when cash payments are made or received. In particular:

- Revenue from the sale of goods is recognised when the Council transfers the significant risks and rewards of ownership to the purchaser and it is probable that economic benefits or service potential associated with the transaction will flow to the Council.
- Revenue from the provision of services is recognised when the Council can measure reliably the percentage of completion of the transaction and it is probable that economic benefits or

service potential associated with the transaction will flow to the Council.

- Supplies are recorded as expenditure when they are consumed – where there is a gap between the date supplies are received and their consumption, they are carried as inventories on the Balance Sheet.
- Expenses in relation to services received (including services provided by employees) are recorded as expenditure when the services are received, rather than when payments are made.
- Interest receivable on investments and payable on borrowings is accounted for respectively on the basis of the effective interest rate for the relevant financial instrument rather than the cash flows fixed or determined by the contract.
- Where revenue and expenditure have been recognised but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded in the Balance Sheet. Where debts may not be settled, the balance of debtors is written down and a charge made to revenue for the income that might not be collected.

Carbon Reduction Commitment Scheme

The Council is required to participate in the Carbon Reduction Commitment Energy Efficiency Scheme. This scheme is currently in its introductory phase, which will last until April 2014. The Council is required to purchase and surrender allowances, currently retrospectively, on the basis of emissions, ie carbon dioxide produced as energy is used. As carbon dioxide is emitted (ie as

energy is used), a liability is measured at the best estimate of the expenditure required to meet the obligation, normally at the current market price of the number of allowances required to meet the liability at the reporting date. The cost to the Council is recognised and reported in the costs of the Council's services and is apportioned to services on the basis of energy consumption.

Cash and Cash Equivalents

Cash is represented by cash in hand and deposits with financial institutions repayable without penalty on notice of not more than 24 hours. Cash equivalents are highly liquid investments that mature in three months or less from the date of acquisition and that are readily convertible to known amounts of cash with insignificant risk of change in value.

In the Cash Flow Statement, cash and cash equivalents are shown net of bank overdrafts that are repayable on demand and form an integral part of the Council's cash management.

Prior Period Adjustments, Changes in Accounting Policies and Estimates and Errors

Prior period adjustments may arise as a result of a change in accounting policies or to correct a material error. Changes in accounting estimates are accounted for prospectively, ie in the current and future years affected by the change and do not give rise to a prior period adjustment.

Changes in accounting policies are only made when required by proper accounting practices of the change provides more reliable or relevant information about the effect of transactions, other events and conditions on the Council's financial position or financial performance. Where a change is made, it is applied retrospectively (unless stated otherwise) by adjusting opening balances and

comparative amounts for the prior period as if the new policy had always been applied.

Material errors discovered in prior period figures are corrected retrospectively by amending opening balances and comparative amounts for the prior period.

Charges to Revenue for Non-Current Assets

Services, support services and trading accounts are debited with the following amounts to record the cost of holding non-current assets during the year:

- Depreciation attributable to the assets used by the relevant service.
- Revaluation and impairment losses on assets used by the service where there are no accumulated gains in the Revaluation Reserve against which the losses can be written off.
- Amortisation of intangible assets attributable to the service.

The Council is not required to raise Council Tax to fund depreciation, revaluation and impairment losses or amortisation. However, it is required to make an annual contribution from revenue towards the reduction in its overall borrowing requirement equal to an amount calculated on a prudent basis determined by the Council in accordance with statutory guidance. Depreciation, revaluation and impairment losses and amortisation are therefore replaced by a contribution in the General Fund Balance (Minimum Revenue Provision), by way of an adjusting transaction within the Capital Adjustment Account in the Movement in Reserves Statement for the difference between the two.

Employee Benefits

Benefits Payable during Employment

Short-term employee benefits are those due to be settled within 12 months of the year-end. They include such benefits as wages and salaries, paid annual leave, paid sick leave and bonuses, for current employees and are recognised as an expense for services in the year in which the employees render service to the Council. An accrual is made for the cost of holiday entitlements (or any form of leave, eg time off in lieu) earned by employees but not taken before the year-end which employees can carry forward into the next financial year. The accrual is made at the remuneration rates applicable at 31st March of the reported period. The accrual is charged to Surplus or Deficit on the Provision of Services, but then reversed out through the Movement in Reserves Statement so that the holiday benefits are charged to revenue in the financial year in which the holiday absence occurs.

Termination Benefits

Termination benefits are amounts payable as a result of a decision by the Council to terminate an officer's employment before the normal retirement date or an officer's decision to accept voluntary redundancy and are charged on an accruals basis to the appropriate service or where applicable, to the Non Distributed Costs line in the Comprehensive Income and Expenditure Statement when the Council is demonstrably committed to the termination of the employment of an officer or group of officers or making an offer to encourage voluntary redundancy.

Where termination benefits involve the enhancement of pensions, statutory provisions require the General Fund Balance to be charged with the amount payable by the Council to the pension fund or pensioner in the year, not the amount calculated according to the relevant accounting standards. In the Movement in Reserves

Statement, appropriations are required to and from the Pension Reserve to remove the notional debits and credits for pension enhancement termination benefits and replace them with debits for the cash paid to the pension fund and pensioners and any such amounts payable but unpaid at the year-end.

Post Employment Benefits

Employees of the Council are members of three separate pension schemes:

- The Local Government Pensions Scheme, administered by Cambridgeshire County Council.
- The Teachers Pension Scheme, administered by Capita Teachers' Pensions on behalf of the Department for Education (DfE).
- The NHS Pension Scheme, administered by NHS Pensions.

These schemes provide defined benefits to members (retirement lump sums and pensions), earned as employees worked for the Council.

However, the arrangements for the teachers' and NHS scheme mean that liabilities for these benefits cannot ordinarily be identified specifically to the Council. The scheme is therefore accounted for as if it were a defined contribution scheme and no liability for future payments of benefits is recognised in the Balance Sheet. The Children's and Education Services line in the Comprehensive Income and Expenditure Statement is charged with the employer's contributions payable to Teachers' Pensions in the year, and equally the Social Care Adults for the NHS.

The Local Government Pension Scheme

The Local Government Scheme is accounted for as a defined benefits scheme:

- The liabilities of the Cambridgeshire County Council pension fund attributable to the Council are included in the Balance Sheet on an actuarial basis using the projected unit method – ie an assessment of the future payments that will be made in relation to retirement benefits earned to date by employees, based on assumptions about mortality rates, employee turnover rates, etc, and projections of projected earnings for current employees.
- Liabilities are discounted to their value at current prices, using an appropriate discount rate (based on the indicative rate of return on high quality corporate bond as identified by the actuary)
- The assets of the Cambridgeshire County Council pension fund attributable to the Council are included in the Balance Sheet at their fair value:
 - quoted securities – current bid price
 - unquoted securities – professional estimate
 - unitised securities – current bid price
 - property – market value
- The change in the net pension liability is analysed into seven components:
 - current service cost – the increase in liabilities as result of years of service earned this year – allocated in the Comprehensive Income and Expenditure Statement to the services for which the employees worked

- past service cost – the increase in liabilities arising from current year decisions whose effect relates to years of service earned in earlier years – debited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement as part of Non Distributed Costs
- interest cost – the expected increase in the present value of liabilities during the year as they move one year closer to being paid – debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement
- expected return on assets – the annual investment return on the fund assets attributable to the Council, based on an average of the expected long-term return – credited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement
- gains or losses on settlements and curtailments – the result of actions to relieve the Council of liabilities or events that reduce the expected future service or accrual of benefits of employees – debited or credited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement as part of Non Distributed Costs
- actuarial gains and losses – changes in the net pensions liability that arise because events have not coincided with assumptions made at the last actuarial valuation or because the actuaries have updated their assumptions – charged to the Pension Reserve
- contributions paid to the Cambridgeshire County Council pension fund – cash paid as employer’s contributions to the pension fund in settlement of liabilities; not accounted for as an expense.

In relation to retirement benefits, statutory provisions require the General Fund Balance to be charged with the amount payable by the Council to the pension fund or directly to pensioners in the year, not the amount calculated according to the relevant accounting standards. In the Movement in Reserves Statement, this means that there are appropriations to and from the Pension Reserve to remove the notional debits and credits for retirement benefits and replace them with debits for the cash paid to the pension fund and pensioners and any such amounts payable but unpaid at the year-end. The negative balance that arises on the Pension Reserve thereby measures the beneficial impact to the General Fund of being required to account for retirement benefits on the basis of cash flows rather than as benefits earned by employees.

Discretionary Benefits

The Council also has restricted powers to make discretionary awards of retirement benefits in the event of early retirements. Any liabilities estimated to arise as a result of an award to any member of staff (including teachers) are accrued in the year of the decision to make the award and accounted for using the same policies as are applied to the Local Government Pension Scheme.

Events after the Balance Sheet Date

Events after the Balance Sheet date are those events, both favourable and unfavourable, that occur between the end of the reporting period and the date when the Statement of Accounts is authorised for issue. Two types of events can be identified:

- those that provide evidence of conditions that existed at the end of the reporting period – the Statement of Accounts is adjusted to reflect such events
- those that are indicative of conditions that arose after the reporting period – the Statement of Accounts is not adjusted to

reflect such events, but where a category of events would have a material effect, disclosure is made in the notes of the nature of the events and their estimated financial effect

Events taking place after the date of authorisation for issue are not reflected in the Statement of Accounts.

Exceptional Items

When items of income and expense are material, their nature and amount is disclosed separately, either on the face of the Comprehensive Income and Expenditure Statement or in the notes to the accounts, depending on how significant the items are to an understanding of the Council's financial performance.

Financial Instruments

Financial Liabilities

Financial liabilities are recognised on the Balance Sheet when the Council becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value and carried at their amortised cost. Annual charges to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement for interest payable are based on the carrying amount of the liability, multiplied by the effective rate of interest for the instrument. The effective interest rate is the rate that exactly discounts estimated future cash payments over the life of the instrument to the amount at which it was originally recognised.

For most of the borrowings that the Council has, this means that the amount presented in the Balance Sheet is the outstanding principal repayable (plus accrued interest) and interest charged to

the Comprehensive Income and Expenditure Statement is the amount payable for the year according to the loan agreement.

For the three stepped rate loans, the amount charged to revenue is based on the effective interest rate and the difference between that and the cash paid is reversed out in the Movement in Reserves Statement.

Gains and losses on the repurchase or early settlement of borrowing are credited and debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement in the year of repurchase / settlement. However, where repurchase has taken place as part of a restructuring of the loan portfolio that involves the modification or exchange of existing instruments, the premium or discount is respectively deducted from or added to the amortised cost of the new or modified loan and the write-down to the Comprehensive Income and Expenditure Statement is spread over the life of the loan by an adjustment to the effective interest rate.

Where premiums and discounts have been charged to the Comprehensive Income and Expenditure Statement, regulations allow the impact on the General Fund Balance to be spread over future years. The Council has a policy of spreading the gain or loss over the term that was remaining on the loan against which the premium was payable or discount receivable when it was repaid. The reconciliation of amounts charged to the Comprehensive Income and Expenditure Statement to the net charge required against the General Fund Balance is managed by a transfer to or from the Financial Instruments Adjustment Account in the Movement in Reserves Statement.

Financial Assets

Financial assets are classified into two types:

- loans and receivables – assets that have fixed or determinable payments but are not quoted in an active market.
- available-for-sale assets – assets that have a quoted market price and / or do not have fixed or determinable payments.

Loans and Receivables

Loans and Receivables are recognised on the Balance Sheet when the Council becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value. They are subsequently measured at their amortised cost. Annual credits to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement for interest receivable are based on the carrying amount of the asset multiplied by the effective rate of interest for the instrument. For most of the loans that the Council has made, this means that the amount presented in the Balance Sheet is the outstanding principal receivable (plus accrued interest) and interest credited to the Comprehensive Income and Expenditure Statement is the amount receivable for the year in the loan agreement.

When soft loans are made, a loss is recorded in the Comprehensive Income and Expenditure Statement (debited to the appropriate service) for the present value of the interest that will be foregone over the life of the instrument, resulting in a lower amortised cost than the outstanding principal. Interest is credited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement at a marginally higher effective rate of interest than the rate receivable from the voluntary organisations, with the difference serving to increase the amortised cost of the loan in the Balance Sheet. Statutory

provisions require that the impact of soft loans on the General Fund Balance is the interest receivable for the financial year – the reconciliation of amounts debited and credited to the Comprehensive Income and Expenditure Statement to the net gain required against the General Fund Balance is managed by a transfer to or from the Financial Instruments Adjustment Account in the Movement in Reserves Statement.

Where assets are identified as impaired because of a likelihood arising from a past event that payments due under the contract will not be made, the asset is written down and a charge made to the relevant service (for receivables specific to that service) or the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. The impairment loss is measured as the difference between the carrying amount and the present value of the revised future cash flows discounted at the asset's original effective interest rate.

Any gains and losses that arise on the derecognition of an asset are credited or debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.

Available-for-Sale Assets

Available-for-sale assets are recognised on the Balance Sheet when the Council becomes a party to the contractual provisions of a financial instrument and are initially measured and carried at fair value. Where the asset has fixed or determinable payments, annual credits to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement for interest receivable are based on the amortised cost of the asset multiplied by the effective rate of interest for the instrument. Where there are no fixed or determinable payments, income (eg dividends) is credited to the Comprehensive Income

and Expenditure Statement when it becomes receivable by the Council.

Assets are maintained in the Balance Sheet at fair value. Values are based on the following principles:

- instruments with quoted market prices – the market price
- other instruments with fixed and determinable payments – discounted cash flow analysis
- equity shares with no quoted market prices – independent appraisal of company valuations

Changes in fair value are balanced by an entry in the Available-for-Sale Reserve and the gain/loss is recognised in the Surplus or Deficit on Revaluation of Available for Sale Financial Assets. The exception is where impairment losses have been incurred – these are debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement, along with any net gain or loss for the asset accumulated in the Available-for-Sale Reserve.

Where assets are identified as impaired because of a likelihood arising from a past event that payments due under the contract will not be made (fixed or determinable payments) or fair value falls below cost, the asset is written down and a charge made to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. If the asset has fixed or determinable payments, the impairment loss is measured as the difference between the carrying amount and the present value of the revised future cash flows discounted at the asset's original effective interest rate. Otherwise, the impairment loss is measured as any shortfall of fair value against the acquisition cost of the instrument (net of any principal repayment and amortisation).

Any gains or losses that arise on the derecognition of the asset are credited or debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement, along with any accumulated gains or losses previously recognised in the Available for Sale Reserve.

Where fair value cannot be measured reliably, the instrument is carried at cost (less any impairment losses).

Foreign Currency Translation

Where the Council has entered into a transaction denominated in a foreign currency, the transaction is converted into sterling at the exchange rate applicable on the date the transaction was effective.

Government Grants and Contributions

Whether paid on account, by instalments or in arrears, government grants and third party contributions and donations are recognised as due to the Council when there is reasonable assurance that:

- the Council will comply with the conditions attached to the payments, and
- the grants or contributions will be received

Amounts recognised as due to the Council are not credited to the Comprehensive Income and Expenditure Statement until conditions attached to the grant or contribution have been satisfied. Conditions are stipulations that specify that the future economic benefits or service potential embodied in the asset in the form of the grant or contribution are required to be consumed by the recipient as specified, or future economic benefits or service potential must be returned to the transferor.

Monies advanced as grants and contributions for which conditions have not been satisfied are carried in the Balance Sheet as

creditors. When conditions are satisfied, the grant or contribution is credited to the relevant service line (attributable revenue grants and contributions) or Taxation and Non-Specific Grant Income (non ring-fenced revenue grants and all capital grants) in the Comprehensive Income and Expenditure Statement.

Where capital grants are credited to the Comprehensive Income and Expenditure Statement, they are reversed out of the General Fund Balance in the Movement in Reserves Statement. Where the grant has yet to be used to finance capital expenditure, it is posted to the Capital Grants Unapplied reserve. Where it has been applied, it is posted to the Capital Adjustment Account. Amounts in the Capital Grants Unapplied Reserve are transferred to the Capital Adjustment Account once they have been applied to fund capital expenditure.

Heritage Assets

Heritage assets are assets that are held by the Council principally for their contribution to knowledge or culture. These assets are recognised and measured in accordance with the Council's accounting policies on Property, Plant, and Equipment. However the assets are recognised in the Balance Sheet using as its base the detailed insurance valuation (which are based on market values) held by the Council. And as heritage assets held have indeterminate lives and a high residual value; the Council does not consider it appropriate to charge depreciation for the assets.

Intangible Assets

Expenditure on non-monetary assets that do not have physical substance but are controlled by the Council as a result of past events (e.g. software licences) is capitalised when it is expected that future economic benefits or service potential will flow from the intangible asset to the Council.

Internally generated assets are capitalised where it is demonstrable that the project is technically feasible and is intended to be completed (with adequate resources being available) and the Council will be able to generate future economic benefits or deliver service potential by being able to sell or use the asset. Expenditure is capitalised where it can be measured reliably as attributable to the asset and is restricted to that incurred during the development phase (research expenditure cannot be capitalised).

Expenditure on the development of websites is not capitalised if the website is solely or primarily intended to promote or advertise the Council's goods or services.

Intangible assets are measured initially at cost. Amounts are only revalued where the fair value of the assets held by the Council can be determined by reference to an active market. The depreciable amount of an intangible asset is amortised over its useful life to the relevant service line(s) in the Comprehensive Income and Expenditure Statement. An asset is tested for impairment whenever there is an indication that the asset might be impaired – any losses recognised are posted to the service line(s) in the Comprehensive Income and Expenditure Statement. Any gain or loss arising on the disposal or abandonment of an intangible asset is posted to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement.

Where expenditure on intangible assets qualifies as capital expenditure for statutory purposes, amortisation, impairment losses and disposal gains and losses are not permitted to have an impact on the General Fund Balance. The gains and losses are therefore reversed out of the General Fund Balance in the Movement in Reserves Statement and posted to the Capital Adjustment Account and (for any sale proceeds greater than £10,000) the Capital Receipts Reserve.

Inventories and Long Term Contracts

Inventories are included in the Balance Sheet at the lower of cost and net realisable value. The cost of inventories is assigned using the weighted average costing formula.

Long term contracts are accounted for on the basis of charging the Surplus or Deficit on the Provision of Services with the value of works and services received under the contract during the financial year.

Investment Properties

Investment properties are those that are used solely to earn rentals and / or for capital appreciation. The definition is not met if the property is used in any way to facilitate the delivery of services or production of goods or is held for sale.

Investment properties are measured initially at cost and subsequently at fair value, based on the amount at which the asset could be exchanged between knowledgeable parties at arm's length. Properties are not depreciated but are revalued annually according to market conditions at the year-end. Gains and losses on revaluation are posted to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. The same treatment is applied to gains and losses on disposal.

Rentals received in relation to investment properties are credited to the Financing and Investment Income line and result in a gain for the General Fund Balance. However, revaluation and disposal gains and losses are not permitted by statutory arrangements to have an impact on the General Fund Balance. The gains and losses are therefore reversed out of the General Fund Balance in the Movement in Reserves Statement and posted to the Capital

Adjustment Account and (for any sale proceeds greater than £10,000) the Capital Receipts Reserve.

Leases

Leases are classified as finance leases where the terms of the lease transfer substantially all the risks and rewards incidental to ownership of the property, plant or equipment from the lessor to the lessee. All other leases are classified as operating leases.

Where a lease covers both land and buildings, the land and buildings elements are considered separately for classification.

Arrangements that do not have the legal status of a lease but convey a right to use an asset in return for payment are accounted for under this policy where fulfilment of the arrangement is dependent on the use of specific assets.

The Council as Lessee

Finance Leases

Property, plant and equipment held under finance leases is recognised on the Balance Sheet at the commencement of the lease at its fair value measured at the lease's inception (or the present value of the minimum lease payments, if lower). The asset recognised is matched by a liability for the obligation to pay the lessor. Initial direct costs of the Council are added to the carrying amount of the asset. Premiums paid on entry into a lease are applied to writing down the lease liability. Contingent rents are charged as expenses in the periods in which they are incurred.

Lease payments are apportioned between:

- a charge for the acquisition of the interest in the property, plant or equipment – applied to write down the lease liability, and

- a finance charge (debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement)

Property, Plant and Equipment recognised under finance leases is accounted for using the policies applied generally to such assets, subject to depreciation being charged over the lease term if this is shorter than the asset's estimated useful life (where ownership of the asset does not transfer to the Council at the end of the lease period).

The Council is not required to raise Council Tax to cover depreciation or revaluation and impairment losses arising on leased assets. Instead, a prudent annual contribution is made from revenue funds towards the deemed capital investment in accordance with statutory requirements. Depreciation and revaluation and impairment losses and therefore substituted by a revenue contribution in the General Fund Balance, by way of an adjusting transaction with the Capital Adjustment Account in the Movement in Reserves Statement for the difference between the two.

Operating Leases

Rentals paid under operating leases are charged to the Comprehensive Income and Expenditure Statement as an expense of the services benefiting from use of the leased property, plant or equipment. Charges are made on a straight-line basis over the life of the lease, even if this does not match the pattern of payments (eg there is a rent-free period at the commencement of the lease).

Council as Lessor

Finance Leases

Where the Council grants a finance lease over a property or an item of plant or equipment, the relevant asset is written out of the

Balance Sheet as a disposal. At the commencement of the lease, the carrying amount of the asset in the Balance Sheet (whether Property, Plant and Equipment or Asset Held for Sale) is written off to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement as part of the gain or loss on disposal. A gain, representing the Council's net investment in the lease, is credited to the same line in the Comprehensive Income and Expenditure Statement also as part of the gain or loss on disposal (ie netted off against the carrying value of the asset at the time of disposal), matched by a lease (long-term debtor) asset in the Balance Sheet.

Lease rentals receivable are apportioned between:

- a charge for the acquisition of the interest in the property, plant or equipment – applied to write down the lease debtor (together with any premiums received), and
- finance income (credited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement)

The gain credited to the Comprehensive Income and Expenditure Statement on disposal is not permitted by statute to increase the General Fund Balance and is required to be treated as a capital receipt. Where a premium has been received, this is posted out of the General Fund Balance to the Capital Receipts Reserve in the Movement in Reserves Statement. Where the amount due in relation to the lease asset is to be settled by the payment of rentals in future financial years, this is posted out of the General Fund Balance to the Deferred Capital Receipts Reserve in the Movement in Reserves Statement. When the future rentals are received, the element for the capital receipt for the disposal of the asset is used to write down the lease debtor. At this point, the deferred capital receipts are transferred to the Capital Receipts Reserve.

The written-off value of disposals is not a charge against Council Tax, as the cost of non-current assets is fully provided for under separate arrangements for capital financing. Amounts are therefore appropriated to the Capital Adjustment Account from the General Fund Balance in the Movement in Reserves Statement.

Operating Leases

Where the Council grants an operating lease over a property or an item of plant or equipment, the asset is retained in the Balance Sheet. Rental income is credited to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement. Credits are made on a straight-line basis over the life of the lease, even if this does not match the pattern of payments (eg there is a premium paid at the commencement of the lease). Initial direct costs incurred in negotiating and arranging the lease are added to the carrying amount of the relevant asset and charged as an expense over the lease term on the same basis as rental income.

Overheads and Support Services

The costs of overheads and support services are charged to those that benefit from the supply or service in accordance with the costing principals of the CIPFA *Service Reporting Code of Practice 2012/13 (SeRCOP)*. The total absorption costing principle is used – the full cost of overheads and support services are shared between users in proportion to the benefits received, with the exception of:

- Corporate and Democratic Core – costs relating to the Council's status as a multi-functional, democratic organisation.
- Non Distributed Costs – the cost of discretionary benefits awarded to employees retiring early and impairment losses chargeable on Assets Held for Sale.

These two cost categories are defined in SeRCOP and accounted for as separate headings in the Comprehensive Income and Expenditure Statement, as part of Net Expenditure on the Cost of Services.

Property, Plant and Equipment

Assets that have physical substance and are held for use in the production or supply of goods or services, for rental to others or for administration purposes and that are expected to be used during more than one financial year are classified as Property, Plant and Equipment.

Recognition

Expenditure on the acquisition, creation or enhancement of Property, Plant and Equipment is capitalised on an accruals basis, provided that it is probable that the future economic benefits or service potential associated with the item will flow to the Council and the cost of the item can be measured reliably. Expenditure that maintains but does not add to an asset's potential to deliver future economic benefits or service potential (ie repairs and maintenance) is charged as an expense when it is incurred.

Measurement

Assets are initially measured at cost, comprising:

- the purchase price
- any costs attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management
- the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located

The Council does not capitalise borrowing costs incurred whilst assets are under construction.

The cost of assets acquired other than by purchase is deemed to be its fair value, unless the acquisition does not have commercial substance (ie it will not lead to a variation in the cash flows of the Council). In the latter case, where an asset is acquired via an exchange, the cost of acquisition is the carrying amount of the asset given up by the Council.

Donated assets are measured initially at fair value. The difference between fair value and any consideration paid is credited to the Taxation and Non-Specific Grant Income line of the Comprehensive Income and Expenditure Statement, unless the donation has been made conditionally. Until conditions are satisfied, the gain is held in the Donated Assets Account. Where gains are credited to the Comprehensive Income and Expenditure Statement, they are reversed out of the General Fund Balance to the Capital Adjustment Account in the Movement in Reserves Statement.

Assets are then carried in the Balance Sheet using the following measurement bases:

- infrastructure and assets under construction – depreciated historical cost.
- all other assets – fair value, determined as the amount that would be paid for the asset in its existing use (EUUV).

Where there is no market-based evidence of fair value because of the specialist nature of an asset, depreciated replacement cost (DRC) is used as an estimate of fair value

Where non-property assets that have short useful lives or low values (or both), depreciated historical cost basis is used as a proxy for fair value.

Assets included in the Balance Sheet at fair value are revalued sufficiently regularly to ensure that their carrying amount is not materially different from their fair value at the year-end, but as a minimum every four years. Increases in valuations are matched by credits to the Revaluation Reserve to recognise unrealised gains. Exceptionally, gains might be credited to the Surplus or Deficit on the Provision of Services where they arise from the reversal of a loss previously charged to a service.

Where decreases in value are identified, they are accounted for by:

- where there is a balance of revaluation gains for the asset in the Revaluation Reserve, the carrying amount of the asset is written down against that balance (up to the amount of the accumulated gains)
- where there is no balance in the Revaluation Reserve or insufficient balance, the carrying amount of the asset is written down against the relevant service line(s) in the Comprehensive Income and Expenditure Statement

The Revaluation Reserve contains revaluation gains recognised since 1 April 2007 only, the date of its formal implementation. Gains arising before that date have been consolidated into the Capital Adjustment Account.

Foundation Schools, Voluntary Aided (VA) and Voluntary Controlled (VC) Schools are not shown on the Council's Balance Sheet. Some elements of the VA and VC schools land is still owned by the Council and is shown on the Balance Sheet.

Impairment

Assets are assessed at each year-end as to whether there is any indication that an asset may be impaired. Where indications exist and any possible differences are estimated to be material, the

recoverable amount of the asset is estimated and, where this is less than the carrying amount of the asset, an impairment loss is recognised for the shortfall.

Where impairment losses are identified, they are accounted for by:

- where there is a balance of revaluation gains for the asset in the Revaluation Reserve, the carrying amount of the asset is written down against that balance (up to the amount of the accumulated gains)
- where there is no balance in the Revaluation Reserve or an insufficient balance, the carrying amount of the asset is written down against the relevant service line(s) in the Comprehensive Income and Expenditure Statement

Where an impairment loss is reversed subsequently, the reversal is credited to the relevant service line(s) in the Comprehensive Income and Expenditure Statement, up to the amount of the original loss, adjusted for depreciation that would have been charged if the loss had not been recognised.

Disposals and Non-current Assets Held for Sale

When it becomes probable that the carrying amount of asset will be recovered principally through a sale transaction rather than through its continuing use, it is reclassified as an Asset Held for Sale. The asset is revalued immediately before classification and then carried at the lower of this amount and fair value less costs to sell. Where there is a subsequent decrease to fair value less costs to sell, the loss is posted to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement. Gains in fair value are recognised only up to the amount of any previously recognised losses in the Surplus or Deficit on Provision of Services. Depreciation is not charged on Assets Held for Sale.

If assets no longer meet the criteria to be classified as Assets Held for Sale, they are reclassified back to non-current assets and valued at the lower of their carrying amount before they were classified as held for sale; adjusted for depreciation, amortisation or revaluations that would have been recognised had they not been classified as Held for Sale, and their recoverable amount at the date of the decision not to sell.

Assets that are to be abandoned or scrapped are not reclassified as Assets Held for Sale.

When an asset is disposed of or decommissioned, the carrying amount of the asset in the Balance Sheet (whether Property, Plant and Equipment or Assets Held for Sale) is written off to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement as part of the gain or loss on disposal. Receipts from disposals (if any) are credited to the same line in the Comprehensive Income and Expenditure Statement also as part of the gain or loss on disposal (ie netted off against the carrying value of the asset at the time of disposal). Any revaluation gains accumulated for the asset in the Revaluation Reserve are transferred to the Capital Adjustment Account.

Amounts received for a disposal in excess of £10,000 are categorised as capital receipts. A proportion of receipts relating to housing disposals (75% for dwellings, 50% for land and other assets, net of statutory deductions and allowances) is payable to the Government. The balance of receipts is required to be credited to the Capital Receipts Reserve, and can then only be used for new capital investment or set aside to reduce the Council's underlying need to borrow (the capital financing requirement). Receipts are appropriated to the Reserve from the General Fund Balance in the Movement in Reserves Statement.

The written-off value of disposals is not a charge against Council Tax, as the cost of non-current assets is fully provided for under separate arrangements for capital financing. Amounts are appropriated to the Capital Adjustment Account from the General Fund Balance in the Movement in Reserves Statement.

Depreciation

Depreciation is provided for on all Property, Plant and Equipment assets by the systematic allocation of their depreciable amounts over their useful lives. An exception is made for assets without a determinable finite useful life (ie freehold land and certain Community Assets) and assets that are not yet available for use (ie assets under construction).

Depreciation is calculated on the following bases:

- dwellings and other buildings – straight-line allocation over the useful life of the property as estimated by the valuer
- vehicles, plant and equipment – a percentage of the value of each class of assets in the Balance Sheet, as advised by a suitably qualified officer
- infrastructure – straight-line allocation over 25 years

Where an item of Property, Plant and Equipment asset has major components whose cost is significant in relation to the total cost of the item, the components are depreciated separately.

Revaluation gains are also depreciated, with an amount equal to the difference between current value depreciation charged on assets and the depreciation that would have been chargeable based on their historical cost being transferred each year from the Revaluation Reserve to the Capital Adjustment Account.

Private Finance Initiative (PFI) and Similar Contracts

PFI and similar contracts are agreements to receive services, where the responsibility for making available the property, plant and equipment needed to provide the services passes to the PFI contractor. As the Council is deemed to control the services that are provided under its PFI scheme and as ownership of property, plant and equipment will pass to the Council at the end of the contract for no additional charge, the Council carries the assets used under the contract on its Balance Sheet as part of Property, Plant and Equipment.

The original recognition of these assets at fair value (based on cost to purchase the property, plant and equipment) was balanced by the recognition of a liability for amounts due to the scheme operator to pay for the capital investment.

Non current assets recognised on the balance sheet are revalued and depreciated in the same way as Property, Plant and Equipment owned by the Council.

The amounts payable to the PFI operator each year are analysed into four elements:

- fair value of the services received during the year – debited to the relevant service in the Comprehensive Income and Expenditure Statement
- finance cost – an interest charge on the outstanding Balance Sheet liability, debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement
- contingent rent – increases in the amount to be paid for the property arising during the contract, debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement

- payment towards liability – applied to write down the Balance Sheet liability towards the PFI operator (the profile of write-downs is calculated using the same principals as for a finance lease)

Provisions, Contingent Liabilities and Contingent Assets

Provisions

Provisions are made where an event has taken place that gives the Council a legal or constructive obligation that probably requires settlement by a transfer of economic benefits or service potential, and a reliable estimate can be made of the amount of the obligation. For instance, the Council may be involved in a court case that could eventually result in the making of a settlement or the payment of compensation.

Provisions are charged as an expense to the appropriate service line in the Comprehensive Income and Expenditure Statement in the year that the Council becomes aware of the obligation, and are measured at the best estimate at the balance sheet date of the expenditure required to settle the obligation, taking into account relevant risks and uncertainties.

When payments are eventually made, they are charged to the provision carried in the Balance Sheet. Estimated settlements are reviewed at the end of each financial year – where it becomes less than probable that a transfer of economic benefits will now be required (or a lower settlement than anticipated is made), the provision is reversed and credited back to the relevant service.

Where some or all of the payment required to settle a provision is expected to be recovered from another party (eg from an insurance claim), this is only recognised as income for the relevant service if it is virtually certain that reimbursement will be received if the Council settles the obligation.

Landfill Allowance Schemes

Landfill allowances, whether allocated by DEFRA or purchased from another Waste Disposal Authority (WDA) are recognised as current assets and are initially measured at fair value. Landfill allowances allocated by DEFRA are accounted for as a government grant.

After initial recognition, allowances are measured at the lower of cost and net realisable value.

As landfill is used, a liability and an expense are recognised. The liability is discharged either by surrendering allowances or by payment of a cash penalty to DEFRA (or by a combination). The liability is measured at the best estimate of the expenditure required to meet the obligation, normally the market price of the number of allowances required to meet the liability at the reporting date. However, where some of the obligation will be met by paying a cash penalty to DEFRA, that part of its liability is measured at the cost of the penalty.

Contingent Liabilities

A contingent liability arises where an event has taken place that gives the Council a possible obligation whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the Council. Contingent liabilities also arise in circumstances where a provision would otherwise be made but either it is not probable that an outflow of resources will be required or the amount of the obligation cannot be measured reliably.

Contingent liabilities are not recognised in the Balance Sheet but disclosed in a note to the accounts.

Contingent Assets

A contingent asset arises where an event has taken place that gives the Council a possible asset whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the Council.

Contingent assets are not recognised in the Balance Sheet but disclosed in a note to the accounts where it is probable that there will be an inflow of economic benefits or service potential.

Reserves

The Council sets aside specific amounts as reserves for future policy purposes or to cover contingencies. Reserves are created by appropriating amounts out of the General Fund Balance in the Movement in Reserves Statement. When expenditure to be financed from a reserve is incurred, it is charged to the appropriate service in that year to score against the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement. The reserve is then appropriated back into the General Fund Balance in the Movement in Reserves Statement so that there is no net charge against Council Tax for the expenditure.

Certain reserves are kept to manage the accounting process for non-current assets, financial instruments, retirement and employee benefits and do not represent usable resources for the Council – these reserves are explained in the relevant policies.

Revenue Expenditure Funded from Capital Under Statute (REFCUS)

Some expenditure can be classified as capital for funding purposes when it does not result in the expenditure being carried on the Balance Sheet as a non-current asset. The purpose of this is to enable it to be funded from capital resources rather than be charged to the General Fund and impact on that year's council tax. These items are generally grants and expenditure on property not owned by the Council. Where the Council has determined to meet the cost of this expenditure from existing capital resources or by borrowing, a transfer in the Movement in Reserves Statement from the General Fund Balance to the Capital Adjustment Account then reverses out the amounts charged so that there is no impact on the level of council tax.

Value Added Tax (VAT)

VAT payable is included as an expense only to the extent that it is not recoverable from Her Majesty's Revenue and Customs (HMRC). VAT receivable is excluded from income.

Glossary

Accruals - The concept that revenue and capital income and expenditure are recognised as they are earned or incurred, not as money is received or paid. Transactions are treated on an accruals basis with income and expenditure due as at 31 March brought into the accounts.

Accumulating Compensated Absences Adjustment Account – Absorbs the differences that would otherwise arise on the General Fund Balance from accruing for compensated absences earned but not taken in the year.

Amortisation – The reduction in the useful economic life of a long term intangible asset, whether arising from time or obsolescence through technological or other changes.

Annual Governance Statement – Identifies the systems that the Council has in place to ensure that its business is conducted in accordance with the law and proper standards and that public money is safeguarded.

Council – A shortened name for ‘Local Council’ – see below.

Balance Sheet - Fundamental to the understanding of a local Council's financial position at the year-end. It shows the balances and reserves at the Council's disposal and its long term indebtedness, and the long term and net current assets employed in its operations.

Balances – The non-earmarked reserves of a local Council, which are made up of the accumulated surplus of income over expenditure. This is known as the General Fund Balance for all the other services provided by the Council. Adequate revenue

balances are needed to meet unexpected expenditure or a shortfall of income. A local Council may decide to use its revenue balances to reduce its budget and thus its call on the Collection Fund.

Budget (Medium Term Financial Strategy (MTFS)) - A statement of a Council's plans for net revenue and capital expenditure over a specified period of time.

Capital Adjustment Account – This account was created at midnight on 31 March 2007 and its opening balance was made up of the balance on the Fixed Asset Restatement Account (FARA) and the Capital Financing Account.

Capital Charge - A charge to service revenue accounts to reflect the cost of non-current assets used in the provision of their services.

Capital Expenditure - Expenditure on the acquisition or development of major assets which will be of use or benefit to a Council in providing its services beyond the year of account.

Capital Grant - A grant received towards the capital expenditure incurred on a particular service or project. Capital grants can be made by a Council, for example, to homeowners to meet the cost of improving their houses.

Capital Receipts - Proceeds from the sale of non-current assets, e.g. land and buildings. The proceeds can be used to finance new capital expenditure or repay debt. It cannot be used to finance revenue expenditure.

Collection Fund - A statutory fund in which a Council records transactions for Council Tax, National Non-Domestic Rates and residual Community Charges.

Community Assets - Assets that the local Council intends to hold in perpetuity, that have no determinable useful life, and that may have restrictions on their disposal. Examples of community assets are parks and open spaces.

Comprehensive Income and Expenditure Statement - Reports the income and expenditure for all the Council's services and demonstrates how that cost has been financed from general government grants and income from taxpayers.

Council - Means 'Peterborough City Council' specifically. The Council is a local Council and this term is used in these definitions, and in the Statement of Accounts', to define any or all Councils.

Creditor - An amount owed by the Council for work done, goods received or services rendered to the Council within the accounting period but for which payment has not been made.

Current Asset - An asset which can be expected to be consumed or realised during the next accounting period.

Current Liability - An amount which will become payable or could be called in within the next accounting period, e.g. creditor, cash overdrawn.

Debt Redemption - The repayment of loans raised to finance capital expenditure.

Debtor - An amount owed to a local Council within the accounting period, but not received at the Balance Sheet date.

Dedicated Schools Grant (DSG) - Grant received from Department for Education to fund schools related expenditure.

Deferred Capital Receipts Reserve - Holds the gains recognised on the disposal of non-current assets but for which cash settlement has yet to take place.

Depreciation - The measure of the wearing out, consumption or other reduction in the useful economic life of a long term asset, whether arising from use, time or obsolescence through technological or other changes.

Derecognition - The term used for the removal of an asset or liability from the balance sheet.

Direct Revenue Financing (DRF) - A contribution to the financing of capital expenditure by a charge to the Comprehensive Income and Expenditure Statement. This can be used to supplement a local Council's other capital resources.

Effective Rate of Interest - The rate of interest that will discount the estimated cash flows over the life of a financial instrument to the amount in the balance sheet at initial measurement.

Equity Instrument - A contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities (e.g an equity share in a company).

Fair Value - The amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arms length transaction.

Financing Charges - Annual charges to the Comprehensive Income and Expenditure Statement of a local Council to cover the interest on, and repayment of, loans raised for capital expenditure.

Finance Lease - A lease that transfers substantially all of the risks and rewards of ownership of an asset to the lessee. Such a transfer of risks and rewards may be presumed to occur if at

the inception of the lease the present value of the minimum lease payments, including any initial payment, amounts to substantially all of the fair value of the leased asset

Financial Asset – A right to future economic benefits controlled by the Council. Examples include bank deposits, investments and loans receivable.

Financial Instrument – Any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another.

Financial Instrument Adjustment Account – This is a specific accounting mechanism used to reconcile the different rates at which gains and losses (such as premiums on the early repayment of debt) are recognised under proper accounting practice and are required by statute to be met from the General Fund.

Financial Liability – An obligation to transfer economic benefits controlled by the Council. Examples include borrowings, financial guarantees and amounts owed to trade creditors.

Long Term Asset - An asset which has value beyond one financial year

General Fund - The main revenue account of a local Council which summarises the cost of all services provided by the Council which are paid for from Council Tax, government grant and other income.

Government Grants and Subsidies - Grants towards either the revenue or capital cost of local Council services. These may be either in respect of particular services or purposes, (specific and supplementary grants), or in aid of local services generally e.g. Revenue Support Grant.

Heritage Assets –A tangible asset with historical, artistic, scientific, technological, geophysical or environmental qualities that is held and maintained principally for its contribution to knowledge and culture.

IAS 19 - This is an International Accounting Standard (which replaces Financial Reporting Standard 17) now universally adopted across all sectors (public and private) for the inclusion and reporting of pension costs in Financial Accounts. It is based on the principle of recognising pension costs in the financial year that they become known rather than the cash transfers made in that year – usually, this means that a higher cost arises. These (higher) costs are calculated each year by Actuaries who forecast changes in future liabilities and the performance of the Pension Fund in determining any potential shortfall. In local government, a Pension Reserve has been introduced to absorb this impact so that no additional costs fall on Council Taxpayers until they are actually due.

Impairment – The term used where the estimated recoverable amount from an asset is less than the amortised cost at which the asset is being carried on the balance sheet.

Infrastructure Assets - Assets that are inalienable, ie may not be sold, transferred or assigned to another. These include facilities required to enable other developments to take place e.g. roads and street lighting.

Investment Properties – Those properties that are used solely to earn rentals and/or for capital appreciation.

Loans Outstanding - The total amounts borrowed from external lenders for capital and temporary revenue purposes and not repaid at the Balance Sheet date.

Local Council – A corporate body, established by statute, to undertake specific local functions. It is governed by Members (also known as Councillors) who are either elected or appointed. Peterborough City Council is a 'local Council'. In these definitions, the term 'local Council' is used to describe one or all Councils generally. Sometimes, this is shortened to just 'Council'.

Minimum Lease Payments – Those lease payments that the Council is, or can be, required to make.

Minimum Revenue Provision (MRP) - This is the minimum amount which must be charged to a local Council's Comprehensive Income and Expenditure Statement and set aside to repay debt. It is calculated by charging 4% on all borrowing up to the 1st April 2007 and for any new supported borrowing. For the remaining unsupported borrowing, MRP is charged in line with the life of the asset for which the borrowing was undertaken.

Movement in Reserves Statement – This statement shows the movement in the year on the different reserves held by the Council, analysed into 'usable reserves' (ie those that can be applied to fund expenditure or reduce local taxation) and unusable reserves.

National Non-Domestic Rates (NNDR) - The rates payable by businesses on their properties are calculated by applying a nationally determined multiplier to the rateable value of the property. This is collected by local authorities and paid to the Government who then redistribute the money to authorities based on a standard amount per head.

Operating Leases - Leases under which the ownership of the asset remains with the lessor.

Pooling – The term used for the calculation and payment of a proportion of housing capital receipts into a national pool for redistribution.

Precept - The amount a local Council, who cannot levy a council tax directly on the public (eg Fire and Police authorities, Parish council), requires it to be collected on its behalf.

Provisions - Required for any liabilities of uncertain timing or amount that have been incurred. Provisions are set aside in the accounts and charged to individual services. When the relevant expenditure occurs, it is charged direct to the Provision.

Reserves - Amounts set aside for purposes falling outside the strict definition of provisions are considered as reserves. Reserves include earmarked reserves set aside for specific projects or service areas, or expected future commitments.

Revaluation Reserve – This account was created on 1 April 2007 and its balance represents the revaluation gains accumulated since 1 April 2007.

Revenue Expenditure - The day-to-day running costs a local Council incurs in providing services (as opposed to capital expenditure).

Revenue Support Grant (RSG) - A general grant paid by the government and recognised in the General Fund to help finance local Council revenue expenditure.

Supported Borrowing – The amount of borrowing assumed by Government in the calculation of their grant payment.

Usable Reserves – Those reserves that can be applied to fund expenditure or reduce local taxation.

Unusable Reserves – Those reserves that absorb the timing differences arising from different accounting arrangements.

Unsupported / Prudential borrowing – The amount of borrowing for which there is no grant to support its revenue impact.

VAT Shelter – The Council transferred its housing stock to Cross Key Homes in October 2004. Housing Associations are at a disadvantage compared to Local Authorities because they are not able to recover VAT on their expenditure. The VAT shelter agreement enables the VAT on capital works to be reclaimed and the benefit split equally between the Council and Cross Keys. This income is included within the Comprehensive Income and Expenditure Statement.

111

Index of Notes to the Core Financial Statements

Note	Description	Page	Note	Description	Page
1	Dedicated Schools Grant.....	13	24	Revaluations.....	42
2	Pooled Funds.....	14	25	Impairment Losses.....	42
3	External Audit Costs.....	14	26	Capital Expenditure and Capital Financing.....	43
4	Members Allowances.....	14	27	Private Finance Initiatives (PFI) and Similar Contracts.....	45
5	Termination Benefits and Exit Packages.....	15	28	Council Leasing Arrangements.....	46
6	Pension Schemes Accounted for as Defined Contribution Schemes.....	16	29	Financial Instruments.....	48
7	Defined Benefit Pension Schemes.....	16	30	Fair Value of Assets and Liabilities carried at Amortised Cost.....	48
8	Officers' Remuneration.....	20	31	Nature and Extent of Risks Arising from Financial Instruments.....	49
9	Comprehensive Income and Expenditure Statement – Other Operating Expenditure.....	22	32	Inventories.....	53
10	Comprehensive Income and Expenditure Statement – Financing and Investment Income and Expenditure.....	22	33	Debtors.....	53
11	Trading Operations.....	22	34	Current Intangible Assets.....	54
12	Comprehensive Income and Expenditure Statement – Taxation and Non Specific Grant Incomes.....	23	35	Creditors.....	54
13	Grant Income.....	23	36	Capital Grants Receipts in Advance.....	54
14	Related Parties.....	23	37	Provisions.....	55
15	Interest in Companies.....	25	38	Cash Flow Statement – Operating Activities.....	56
16	Amounts Reported for Resource Allocation Decisions.....	25	39	Cash Flow Statement – Investing Activities.....	56
17	Movement in Reserves Statement – Adjustments between Accounting Basis and Funding Basis under Regulations.....	29	40	Cash Flow Statement – Financing Activities.....	57
18	Movement in Reserves Statement – Transfers to / (from) Earmarked Reserves.....	36	41	Cash Flow Statement – Cash and Cash Equivalents.....	57
19	Property, Plant and Equipment.....	37	42	Trust Funds.....	57
20	Investment Properties.....	39	43	Contingent Liabilities.....	58
21	Intangible Assets.....	39	44	Accounting Standards that have been Issued but have Not Yet Been Adopted.....	58
22	Assets Held for Sale.....	41	45	Critical Judgement in Applying Accounting Policies.....	59
23	Capital Commitments.....	41	46	Assumptions made about the Future and Other Major Sources of Estimation Uncertainty.....	60
			47	Authorisation of the Accounts.....	62
			48	Prior Period Adjustment.....	62

PETERBOROUGH



CITY COUNCIL

Annual Governance

Statement – 2012/13



Annual Governance Statement

The Annual Governance Statement is being discussed and approved by this Audit Committee on 24 June 2012. The Statement will be included in the final published Statement of Accounts in September 2013.

Certification

As Leader and Chief Executive, we have been advised on the implications of the results of the review of effectiveness of the Council's governance framework, by the Audit Committee and Cabinet.

Our overall assessment is that the Annual Governance Statement is a balanced reflection of the governance environment and that an

adequate framework exists within Peterborough City Council to ensure effective internal control is maintained. We are also satisfied that there are appropriate plans in place to address any significant governance issues and will monitor their implementation and operations as part of our next annual review.

Signed:

Gillian Beasley, Chief Executive

Date:

Signed:

Councillor Marco Cereste, Leader of the Council

Date:

This page is intentionally left blank

AUDIT COMMITTEE	AGENDA ITEM No. 5
24 JUNE 2013	PUBLIC REPORT

Cabinet Member(s) responsible:	Councillor Seaton, Cabinet Member for Resources	
Committee Member responsible:	Councillor Lamb, Chair of Audit Committee	
Contact Officer(s):	Steve Crabtree, Chief Internal Auditor	☎ 384 557

INTERNAL AUDIT: ANNUAL AUDIT OPINION 2012 / 2013

R E C O M M E N D A T I O N S	
FROM : John Harrison, Executive Director (Strategic Resources)	Deadline date : N/A
Audit Committee is asked to	
1. Receive, consider, provide challenge to and endorse the attached Chief Internal Auditor's annual report for the year ended 31 March 2013.	

1. ORIGIN OF REPORT

This report provides details of the performance of Internal Audit during 2012 / 2013 and the areas of work undertaken, together with an opinion on the soundness of the control environment in place to minimise risk to the Council.

2. PURPOSE AND REASON FOR REPORT

- 2.1 The Terms of Reference for the Audit Committee (agreed at Full Council) set out the key roles of the Committee including the following "2.2.1.1 *To consider the annual audit report and opinion of the Executive Director (Strategic Resources) and a summary of internal audit activity (actual and proposed) and the level of assurance it can give over the council's corporate governance arrangements*".
- 2.2 The report provides an overall opinion on the soundness of the control environment in place to minimise risk to the Council. It is based on the findings of completed internal audits.

3. BACKGROUND

- 3.1 The Internal Audit Opinion is based on review work undertaken during the period April 2012 to March 2013 and is set out in the attached **Appendix A**.
- 3.2 In preparing the opinion, the Chief Internal Auditor has reviewed all audit activity carried out relating to 2012 / 2013. Each individual audit undertaken contains an assurance opinion on the adequacy and effectiveness of controls in place to mitigate the risks identified. Where systems have fallen below expected standards, details of these have been identified within the report as well as through out the year to Audit

Committee. Furthermore, ongoing internal performance indicators are monitored and their level of achievement, or otherwise, are included for information purposes.

4. OVERALL OPINION

4.1 **The overall conclusion based on our work is that Peterborough City Council has a sound governance framework from which those charged with Governance can gain reasonable assurance.** Internal Audit has made a number of recommendations to further improve the systems of control and the organisation is actively working to make improvements in these areas. Audit coverage during the year has provided sufficient evidence to conclude that the key financial control systems are sound although there are some areas where improvements are necessary. **However, no system of control can provide absolute assurance against material misstatement or loss, nor can Internal Audit give that assurance.**

5. CONSULTATION

5.1 Summary committee reports are produced and discussed periodically through Audit Committee for information and challenge. All audit reports are issued on a monthly basis to the appropriate Head(s) of Service for action, Executive Directors, Chief Executive, Leader of the Council and the Chair of Audit Committee in accordance with the agreed Audit Charter (last approved by Audit Committee 27 March 2013).

6. ANTICIPATED OUTCOMES

6.1 That the Audit Committee is informed of the Internal Audit Opinion and the work carried out by Internal Audit to support this.

7. REASONS FOR RECOMMENDATIONS

7.1 In accordance with the Accounts and Audit Regulations 2011; the CIPFA Code of Practice for Internal Audit in Local Government 2006 and the recently adopted Public Sector Internal Audit Standards (2013), this report summarises the work of the Internal Audit section and its outcomes in their review of internal control for the last financial year. This should be incorporated with the results of other reviews to produce the required Annual Governance Statement.

8. ALTERNATIVE OPTIONS CONSIDERED

8.1 No other options appropriate.

9. IMPLICATIONS

None.

10. BACKGROUND DOCUMENTS

(Used to prepare this report in accordance with the Local Government (Access to Information) Act 1985)

- Internal Audit Plan 2012 / 2013; and
- Internal Audit reports

11. APPENDICES

- Appendix A – Annual Audit Opinion 2012 / 2013

APPENDIX A

**ANNUAL AUDIT OPINION
2012 / 2013**



ANNUAL REPORT

1. Introduction
2. Arriving at an Opinion
3. Opinion 2012 / 2013
4. Basis of Annual Opinion
5. Resourcing and Performance
6. Assurance Levels and Recommendations
7. Audit Reports Issued: Opinion of Limited Assurance or No Assurance

1. **INTRODUCTION**

1.1 Management is responsible for the system of internal control and should set in place policies and procedures to help ensure that the system is functioning correctly. On behalf of the Audit Committee and the Director of Strategic Resources, Internal Audit acts as an assurance function providing an independent and objective opinion to the organisation on the entire control environment by evaluating the effectiveness in achieving the organisation's objectives. This report is the culmination of the work during the course of the year and seeks to provide an opinion on the adequacy of the control environment and report the incidence of any significant control failings or weaknesses. The report also gives an overview of audit performance during the year. The overall report will then feed into the Annual Governance Statement included in the Statement of Accounts.

2. **ARRIVING AT AN OPINION**

2.1 **Background**

The opinion is derived from work carried out by Internal Audit during the year, as part of the agreed Internal Audit Plan for 2012 / 2013. The Internal Audit Plan was developed to primarily provide management with independent assurance on the adequacy and effectiveness of the systems of internal control. We have conducted our audits both in accordance with the mandatory standards and good practice within the Code of Practice and additionally from our own internal quality assurance systems. Our opinion is limited to the work carried out by Internal Audit but, where possible, we have considered the work of other assurance providers, such as External Audit.

2.2 **Risk Based Planning**

Internal Audit continues to embrace the risk assessment approach to audit. A risk based approach is used to develop the Internal Audit Annual Plan, allowing us to direct resources at areas key to the organisation's success and to provide an opinion on the control environment as a whole. During the course of the year the risks of the Authority are continually reviewed and used to update the plan. Each audit job also uses risk assessment to ensure that suitable audit time and resources are devoted to the more significant areas. This risk based approach to audit planning results in a detailed range of audits that are undertaken during the course of the year to support the overall opinion on the control environment. Examples include:

- Governance reviews, including a review of key assurance frameworks and the Annual Governance Statement;
- Risk based reviews of fundamental financial systems that could have a material impact on the accounts, and other departmental systems;
- Fraud strategy work, responsive fraud and irregularity investigations;
- Contract, procurement, performance and project audits; and
- Audits of Council establishments.

2.3 The Audit Review

There are three elements to each internal audit review.

- Firstly, the control environment is reviewed by identifying the objectives of the system and then assessing the controls in place mitigating the risk of those objectives not being achieved. Completion of this work enables internal audit to establish an opinion on the adequacy of the control framework in place.
- However, controls are not always complied with which in itself will increase risk, so the second part of an audit is to ascertain the extent to which the controls are being complied with in practice. This element of the review enables internal audit to form a view on the extent to which the control environment, designed to mitigate risk, is being complied with.
- Finally, where there are significant control weaknesses or where the controls are not being complied with and only limited assurance can be given, internal audit undertakes further substantive testing to ascertain the impact of these control weaknesses.

2.4 Reporting

Where appropriate, each report we issue during the year is given an overall opinion based on the criteria below. Certain pieces of work do not result in an audit report with an opinion – such as consultancy work, grant reviews, involvement in working groups, review of National Fraud Initiative (NFI) reports and follow-ups. The assessment from each report, along with our consideration of other audit work, is used to formulate the overall Opinion.

AUDIT ASSURANCE	
Assurance	Definitions
Full	The system is designed to meet objectives / controls are consistently applied that protect the Authority from foreseeable risks.
Significant	The system is generally sound but there are some weaknesses of the design of control and / or the inconsistent application of controls. Opportunities exist to mitigate further against potential risks.
Limited	There are weaknesses in the design of controls and / or consistency of application, which can put the system objectives at risk. Therefore there is a need to introduce additional controls and improve compliance with existing ones to reduce the risk exposure for the Authority.
No	Controls are weak and / or there is consistent non-compliance, which can result in the failure of the system. Failure to improve controls will expose the Authority to significant risk, which could lead to major financial loss / embarrassment / failure to achieve key objectives.

This is based upon the number and type of recommendations we make in each report and is for any control weaknesses that jeopardises the complete operation of the service. The prioritisation is established as follows:

RECOMMENDATIONS MADE TO IMPROVE ASSURANCE LEVELS	
Status	Definitions
Critical	Extreme control weakness that jeopardises the complete operation of the service.
High	Fundamental control weakness which significantly increases the risk / scope for error, fraud, or loss of efficiency.
Medium	Significant control weakness which reduces the effectiveness of procedures designed to protect assets and revenue of the Authority.
Low	Control weakness, which, if corrected, will enhance control procedures that are already relatively robust.

3. OPINION 2012 / 2013

The Code of Practice for Internal Audit in Local Government in the UK 2006 (Code of Practice) states that the HOIA must provide a written report to those charged with governance timed to support the Annual Governance Statement. This report must include an opinion on the overall adequacy and effectiveness of the organisation's control environment, presenting a summary of how that opinion is derived including reliance placed on work by other assurance bodies.

The internal control environment is fundamentally well established and continuing to operate well in practice even though 2012 / 2013 has been a challenging year for the organisation. There have been instances where the control environment was not strong enough or complied with sufficiently to prevent significant risks to the organisation. The area of most concern in the year has been in contract letting and management processes and Internal Audit has been working closely with management in these areas to improve key controls.

The overall conclusion based on our work is that Peterborough City Council has a **sound governance framework** from which those charged with Governance can gain **reasonable assurance**. Internal Audit has made a number of recommendations to further improve the systems of control and the organisation is actively working to make improvements in these areas. Audit coverage during the year has provided sufficient evidence to conclude that the key financial control systems are sound although there are some areas where improvements are necessary.

However, no system of control can provide absolute assurance against material misstatement or loss, nor can Internal Audit give that assurance.

Chief Internal Auditor
June 2013

4. **BASIS OF ANNUAL OPINION**

- 4.1 The audit work that was completed for the year to 31 March 2013 is detailed at the end of the report and lists all the audits and their results in terms of the audit assurance levels provided and the number of recommendations made. A summary of assurance levels is detailed below. This shows that **50%** of the systems audited achieved an assurance level of significant or higher (2011/12: **53%**; 2010/11: **68%**). The reducing proportion of higher assurance levels is likely to be the result of the change in focus of audit work over the years, rather than an indication of a downward trend in overall assurance.

AUDIT ASSURANCE						
Assurance Levels	Issued			%		
	2010/11	2011/12	2012/13	2010/11	2011/12	2012/13
Full	2	0	0	4	0	0
Significant	32	9	7	64	53	50
Limited	13	8	5	26	47	36
No	3	0	2	6	0	14
	50	17	14	100	100	100

RECOMMENDATIONS MADE			
	Numbers		
	2010/11	2011/12	2012/13
Low	87	53	8
Medium	157	88	41
High	78	41	63
Critical	5	0	4
	327	182	116

- 4.2 In addition to the audits detailed in the above table, further audit work was carried out, **including 5 follow-ups, 8 grant reviews and 23 pieces of consultancy work**. At the year end 7 audits were in various stages of completion and audit opinions relating to these will be reported during 2013 / 2014.

4.3 **Annual Governance Statement**

Using the proper practice guidance issued by CIPFA as the basis, Internal Audit reviews the corporate governance evidence framework to confirm that there is evidence to indicate that policies, procedures and systems are in place for corporate governance to be effective within the Council. The Council has demonstrated a firm foundation for this and Internal Audit remains of the opinion that the policies, procedures and systems are generally in place for good corporate governance.

4.4 Risk Management and Business Continuity

Risk management arrangements were reviewed during 2011 / 2012 and it was found that, although there was a risk framework and processes in place, there had been a loss of impetus over recent years. During 2012 / 2013 Internal Audit monitored the development of the strategy devised by the new Risk Management team within the Operations directorate. Whilst progress is being made, the key aspects of: cascading the process throughout the authority and developing robust reporting mechanisms is still underway. Going forward, there is also a need for the organisation to focus on business continuity. Internal Audit will continue to monitor developments in this area.

4.5 Key Financial Systems

A risk based review of the authority's key financial systems is undertaken to provide evidence supporting the internal audit opinion on the adequacy of the organisation's control environment. As in previous years, the key financial systems subject to audit were agreed in advance with the authority's external auditors – PricewaterhouseCoopers - as they review this work and use this as a key source of assurance on the organisation. PricewaterhouseCoopers have reviewed our work on key financial systems and confirm that it meets their requirements in terms of timeliness, quality and supporting evidence. Audit coverage during the year has provided sufficient evidence to conclude that those key financial control systems evaluated are sound.

4.6 External Activities

Internal Audit has undertaken reviews on behalf of Vivacity Leisure Trust. The nature of the works undertaken are confidential between us and the client and are not included within the details below, nor incorporated into the Head of Internal Audit Annual Opinion.

4.7 Allegations of Fraud / Irregularity and Breaches of Code of Conduct

This has been an area of significantly increased activity for Internal Audit during the year and has been a large drain on the limited resources available. We allocated 52 days in the annual plan for this type of work (having spent 45 days in 2011 / 2012), but actually spent 259. This is not unusual across local authorities in the current climate, reflecting the impact of the need to reduce costs; both on staff morale and the adequacy of the Council's control environment. A number of reviews have been undertaken in partnership with the Governance Team and a number independently. Summary analysis shows that:

2012 / 2013 INVESTIGATIONS					
Department	Joint Review		Internal Audit only		
	Number	Status	Number	Status	
Adult Social Care	1	Not proven	-	-	-
Childrens Services	1	Not proven	2	No Assurance	
Operations	1	Proven	1	Not proven	
Strategic Resources	-	-	1	Limited Assurance	

Ongoing Investigations	2
------------------------	---

	2
--	---

4.8 Limited and No Assurance reports

The audits listed below have resulted in a limited or no assurance opinion. Where the resultant reports have been issued as a final, executive summaries are provided within Section 7.

Reports issued / previously discussed at Audit Committee 5 November 2012

- Travel and Subsistence
- Direct Payments
- Contracts Review
- Water City Festival

Reports for 24 June 2013

- School C
- Petty Cash
- VAT Self-billing

4.9 Significant Control Weaknesses

Internal Audit is required to form an opinion on the quality of the internal control environment which includes consideration of any significant risk or governance issues and control failures which arise.

Four critical recommendations were made in 2012 / 2013 (compared to none in the previous year) which required immediate attention, as follows:

- One related to the significant number of overdue case reviews within Adult Social Care. The action proposed was a restructuring of the Assessment and Care Management function, and the temporary introduction of external resource to complete all outstanding reviews. A recent report from Adult Social Care indicates a substantial reduction in the number overdue.
- Two related to poor financial control within a particular school (School A), and Children's Services are working with the school to produce an action plan.
- One related to poor control in the authorisation of payroll within another school (School C). The Headteacher has confirmed that this has been rectified.

An area of concern in the year has been in contract letting and management processes. Two audit reviews are currently in progress: one an investigation into the under-delivery of services in an Adult Social Care contract; the other a review of the selection and rotation of suppliers across the council as a whole. We will report the outcomes to Audit Committee in due course. Aside from these, we have been made aware of three instances of contract overspends requiring CMDN's (Cabinet Member Decision Notices) within Children's Services. All of the issues suggest that contracts may not be let or managed in the most effective way. This will be an area of focus for Internal Audit in 2013 / 2014.

5. RESOURCING AND PERFORMANCE

5.1 **Resourcing**

5.1.1 During 2012 / 2013, resources were made up as follows:

- Chief Internal Auditor. 1 officer. Full time post is split 50:50 with Cambridge City Council. NB: The available time provided for Peterborough will reduce further from July 2013 when South Cambridgeshire District Council joins the shared service.
- Group Auditor. 2 officers. 1.46 FTE
- Principal Auditor. 1 officer. 0.60 FTE. Postholder went on maternity leave from February 2013.
- Senior Auditor. 2 posts. 2.00 FTE. One post vacant.
- Auditor. 2 posts. 2.00 FTE. One post vacant.

5.1.2 The team held two vacant posts during the year. During the first 3 months of the 2012 / 2013, Internal Audit employed an agency auditor to undertake a number of key activities. Two further temporary placements were made in February / March 2013 to fulfil a number of key year end reviews. This provided 15 weeks worth of resource. It is planned to recruit to the vacancies in 2013 / 2014.

5.1.3 There has been increased demand on audit time for the following reasons:

- the transfer of the Adult Social Care Service, which has resulted in audit input to a variety unplanned requests for advice and review, as well as a number of planned audits
- an increased number of irregularity and unplanned investigations, which can be time consuming to complete
- requests for advice and guidance on controls in new and changing areas, particularly with the increasing use of mobile technology
- as the Council is more and more successful in bidding for grants, there is an increased requirement for audit assurance to be provided. Audit input has involved providing significant levels of advice on the completion of grant claims to ensure that assurance can be given, and therefore that grants monies are forthcoming.

5.1.4 The staffing levels within the team, along with the substantial demand for advice, consultancy and special investigation work, present a significant challenge for the Internal Audit team in providing adequate coverage of, and thus the ability to offer assurance on, the Council's control environment as a whole.

5.2 Performance

- 5.2.1 Despite the limited level of resources, we have achieved 87% of the original plan, whilst spending more than double the time than budgeted on unplanned work and 30% more time than budgeted on grant claim certification (due to increased demand). We have also achieved 100% coverage on key financial system audits.
- 5.2.2 All reports, plans and progress reports have been produced in accordance with agreed timescales and presented to Members via the Audit Committee. The Annual Governance Statement was and reviewed by External Audit without any adverse comments.
- 5.2.3 Customer feedback remains very positive with continued high levels of satisfaction demonstrated from our customer questionnaires in excess of our target. Additionally, Internal Audit services have been provided to external customers and positive comments received regarding the reviews undertaken. This work has generated additional funds for the Council through the Service Level Agreement.
- 5.2.4 The shared service arrangement with Cambridge City Council, which has delivered efficiency savings and improved performance, has continued. Following negotiations, from July 2013 South Cambridgeshire District Council will join the arrangement. This will result in a reduced presence of the Chief Internal Auditor on site.
- 5.2.5 The level of sickness within the team has continued to improve at 4.2 days per person during the year compared to 4.7 days per person at the same time last year.
- 5.2.6 As part of Internal Audit's long term strategy to further increase working efficiencies the team is continuing to develop the audit automated system currently in use. The system upgrade to VISION is currently in testing mode and is now scheduled to go live in July 2013. Once it is in place for Peterborough, we will look to roll the system out to Cambridge City Council and South Cambridgeshire District Council.

6. ASSURANCE LEVELS AND RECOMMENDATIONS 2012 / 2013

AUDIT ACTIVITY	Department	ASSURANCE LEVEL	RECOMMENDATIONS MADE				COMMENTARY	
			Critical	High	Medium	Low		Total
CORE SYSTEM ASSURANCE WORK	To review the design and operation of key systems to assess whether they are fit for purpose and allow the s151 officer to make his statement included in the Annual Accounts, on the reliability of the supporting financial systems. The fundamental systems - those which are critical to the operation of the council - are reviewed over a three year cycle; others will be reviewed periodically dependent on risk.							
Housing Benefit	Strategic Resources	Significant	N/A	N/A	N/A	N/A	N/A	All jobs complete.
Council Tax	Strategic Resources	Significant	N/A	N/A	N/A	N/A	N/A	A high level evaluation of controls was undertaken and found to be sound. The application of controls has not been tested.
NINDR	Strategic Resources	Significant	N/A	N/A	N/A	N/A	N/A	
Accounts Payable	Strategic Resources	Significant	N/A	N/A	N/A	N/A	N/A	
Accounts Receivable	Strategic Resources	Significant	N/A	N/A	N/A	N/A	N/A	
Payroll System	Strategic Resources	Significant	N/A	N/A	N/A	N/A	N/A	
Budgetary Control	Adult Social Care	-	-	-	-	-	-	This job has been replaced by Accounts Receivable and Accounts Payable, in liaison with PwC.

AUDIT ACTIVITY	Department	ASSURANCE LEVEL	RECOMMENDATIONS MADE					COMMENTARY
			Critical	High	Medium	Low	Total	
ANNUAL GOVERNANCE AND ASSURANCE FRAMEWORK			To review the design and operation of key systems to assess whether they are fit for purpose and allow the s151 officer to make his statement included in the Annual Accounts, on the reliability of the supporting financial systems. The fundamental systems - those which are critical to the operation of the council - are reviewed over a three year cycle; others will be reviewed periodically dependent on risk.					
Annual Governance Statement / Assurance Framework	Corporate	N/A	N/A	N/A	N/A	N/A	N/A	Complete. Full report submitted to Audit Committee on 25 June 2012
Annual Audit Opinion	Corporate	N/A	N/A	N/A	N/A	N/A	N/A	Complete. Full report submitted to Audit Committee on 25 June 2012
Annual Audit Plan	Corporate	N/A	N/A	N/A	N/A	N/A	N/A	Complete. Full report submitted to Audit Committee on 25 March 2013
Internal Audit Effectiveness	Corporate	N/A	N/A	N/A	N/A	N/A	N/A	Complete. Full report submitted to Audit Committee on 25 June 2012
Anti Fraud - National Fraud Initiative	Corporate	N/A	N/A	N/A	N/A	N/A	N/A	In progress and on track with Audit Commission deadlines.
Information Governance	Corporate	N/A	N/A	N/A	N/A	N/A	N/A	Ongoing. Member of the Information Governance Board (Data Protection Group).
Project Governance	Corporate	-	-	-	-	-	-	Not completed due to increase in unplanned work.

AUDIT ACTIVITY	Department	ASSURANCE LEVEL	RECOMMENDATIONS MADE					COMMENTARY
			Critical	High	Medium	Low	Total	
STRATEGIC AND OPERATIONAL RISKS								
Internal Audit provides support to Council and Directorate objectives by testing the effectiveness of controls designed to mitigate identified risks.								
Risk Management	Corporate	N/A	N/A	N/A	N/A	N/A	N/A	Complete. Internal Audit providing ongoing consultancy work as these policies are refreshed. Revised policies submitted to Audit Committee 5 November 2012
Adult Social Care Database - Framework	Adult Social Care	N/A	N/A	N/A	N/A	N/A	N/A	Control advice given during development of system.
Integrated Community Equipment Store	Adult Social Care	Significant	0	1	4	1	6	Final issued.
Carbon Reduction Commitment	Operations	N/A	N/A	N/A	N/A	N/A	N/A	Complete. Memo issued.
Direct Payments	Adult Social Care	Limited	1	7	4	0	12	Complete Executive Summary (No.#2) see below. Referred to Audit Committee 5 November 2012
School A: Primary	Children's Services	No Assurance	2	26	9	1	38	Draft issued. Childrens Services are working closely with the school to improve the control environment in relation to procedures and financial management.
School B: Primary	Children's Services							In progress
Partnership Performance (Enterprise)	Strategic Resources	-	-	-	-	-	-	Not completed due to increase in unplanned work.
Partnership Management (SERCO)	Strategic Resources	-	-	-	-	-	-	Not completed due to increase in unplanned work.

AUDIT ACTIVITY	Department	ASSURANCE LEVEL	RECOMMENDATIONS MADE					COMMENTARY
			Critical	High	Medium	Low	Total	
FOLLOW UPS								
Duke of Bedford Primary School	Children's Services	N / A	N / A	N / A	N / A	N / A	N / A	Complete 5 out of 6 recommendations implemented.
Hampton Vale Primary School	Children's Services	N / A	N / A	N / A	N / A	N / A	N / A	Complete. Unable to verify implementation of recommendations while school reviewing processes and staff structure. Consideration for re-audit in 2013-14.
Direct Payments	Adult Social Care							In progress.
Travel and Subsistence (1)	Strategic Resources	Limited	0	3	3	0	6	Complete. All of previous recommendations implemented. Further 6 recommendations made. Executive Summary (No.#1) see below. Referred to Audit Committee 5 November 2012
Travel and Subsistence (2)	Strategic Resources							In progress. All of previous 6 recommendations implemented.

AUDIT ACTIVITY	Department	ASSURANCE LEVEL	RECOMMENDATIONS MADE					COMMENTARY
			Critical	High	Medium	Low	Total	
GRANT CLAIM CERTIFICATION GAF 2011/12	Corporate	N/A	N/A	N/A	N/A	N/A	N/A	Completed Assurance Letter
Zecos (EU Grants) – 2 nd Claim	Corporate	N/A	N/A	N/A	N/A	N/A	N/A	Completed First Level Controller Approval
CTIE (EU Grants) – 1 st Claim	Corporate	N/A	N/A	N/A	N/A	N/A	N/A	Completed First Level Controller Approval
Disabled Facilities Grant	Corporate	N/A	N/A	N/A	N/A	N/A	N/A	Completed Assurance Letter
DFT (Local Plan Integrated Transport)	Corporate	N/A	N/A	N/A	N/A	N/A	N/A	Completed Assurance Letter
DFT (Local Transport Plan Highways)	Corporate	N/A	N/A	N/A	N/A	N/A	N/A	Completed Assurance Letter
Zecos (EU Grants) – 3 rd Claim	Corporate	N/A	N/A	N/A	N/A	N/A	N/A	Completed First Level Controller Approval
CTIE (EU Grants) – 2 nd Claim	Corporate	N/A	N/A	N/A	N/A	N/A	N/A	Completed First Level Controller Approval

AUDIT ACTIVITY	Department	ASSURANCE LEVEL	RECOMMENDATIONS MADE					COMMENTARY
			Critical	High	Medium	Low	Total	
UNPLANNED								
Contract Letting - Supplier Selection and Rotation	Strategic Resources	Limited	0	3	8	2	13	Draft issued.
Conflict of Interest – alleged irregularity	Adult Social Care							In progress Review of possible conflict of interest between an employee and a contractor.
Direct Payments – alleged irregularity	Adult Social Care	N/A	N/A	N/A	N/A	N/A	N/A	Complete. Investigation into concern that monies are being spent inappropriately. Not proven, but arrangement now ceased.
Contract Management – alleged irregularity	Adult Social Care							In progress. Investigation into alleged under-delivery of contracted services.
New Suppliers	Adult Social Care	N/A	N/A	N/A	N/A	N/A	N/A	Complete. Memo issued
Governance Review	Chief Execs	N/A	N/A	N/A	N/A	N/A	N/A	Complete. Request for Chief Internal Auditor to undertake an independent investigation into a corporate complaint within another section
School C - Special Payroll Review	Children's Services	No Assurance	1	9	4	3	17	Final issued Executive Summary (No.#5) see below. Referred to Audit Committee 24 June 2013
Children's Services Special Review	Children's Services							In progress.

AUDIT ACTIVITY	Department	ASSURANCE LEVEL	RECOMMENDATIONS MADE					COMMENTARY
			Critical	High	Medium	Low	Total	
UNPLANNED (continued)								
Petty Cash – alleged irregularity	Children's Services	Limited	0	1	8	1	10	Final issued Executive Summary (No.#7) see below. Referred to Audit Committee 24 June 2013
Purchasing via E-bay	Children's Services	N/A	N/A	N/A	N/A	N/A	N/A	Investigation into missing monies - not proven. Complete. Memo issued
Gifts and Hospitality for Schools	Children's Services	N/A	N/A	N/A	N/A	N/A	N/A	Complete. Memo issued
Contract overspends	Children's Services	N/A	N/A	N/A	N/A	N/A	N/A	Complete. 3 Memos issued
Translation Services	Children's Services							In progress
Sale of obsolete items	Children's Services	N/A	N/A	N/A	N/A	N/A	N/A	Complete. 2 memos issued
Contract Tendering – alleged irregularity	Operations	N/A	N/A	N/A	N/A	N/A	N/A	Complete Executive Summary (No.#3) see below. Referred to Audit Committee 5 November 2012 Referral made to Police for action
Water City Festival – alleged irregularity	Operations	N/A	0	3	1	0	4	Complete Executive Summary (No.#4) see below. Referred to Audit Committee 5 November 2012

AUDIT ACTIVITY	Department	ASSURANCE LEVEL	RECOMMENDATIONS MADE					COMMENTARY
			Critical	High	Medium	Low	Total	
UNPLANNED (continued)								
VAT Self Billing	Strategic Resources	Limited	0	10	0	0	10	Final issued. Executive Summary (No.#6) see below. Referred to Audit Committee 24 June 2013
Accounts Payable queries	Strategic Resources	N/A	N/A	N/A	N/A	N/A	N/A	Complete. 4 memos issued
Document Retention	Strategic Resources	N/A	N/A	N/A	N/A	N/A	N/A	Complete. 2 memos issued
Partnerships	Strategic Resources	N/A	N/A	N/A	N/A	N/A	N/A	Complete. Procedural review.
Contract Standing Order Review	Chief Execs	N/A	N/A	N/A	N/A	N/A	N/A	Complete. Input to Contract regulations review by Legal Services.
Web-based systems Access Controls	Strategic Resources							In progress
Payroll Overpayment Recovery Process	Strategic Resources							In progress

AUDIT ACTIVITY	Department	ASSURANCE LEVEL	RECOMMENDATIONS MADE					COMMENTARY
			Critical	High	Medium	Low	Total	
EXTERNAL WORK								
Vivacity	External	N/A	N/A	N/A	N/A	N/A	N/A	Commercially sensitive. This work does not form part of the Head of Internal Audit opinion.
Development of client base	External	N/A	N/A	N/A	N/A	N/A	N/A	Following discussions with the Chief Internal Auditor and proposals as to how the service could be managed, South Cambridgeshire District Council will be joining Shared Service arrangement in July 2013. SCDC currently use an external provider.

7. **AUDIT REPORTS ISSUED AS FINALS: OPINION OF LIMITED ASSURANCE OR NO ASSURANCE**

	AUDIT ACTIVITY	ASSURANCE RATING	DATE TO AUDIT COMMITTEE
1.	Travel and Subsistence	Limited	5 November 2012
2.	Direct Payments	Limited	5 November 2012
3.	Contracts Tendering Review	Limited	5 November 2012
4.	Water City Festival	Limited	5 November 2012
5.	School C Payroll Review	No Assurance	24 June 2013
6.	VAT Self-Billing	Limited	24 June 2013
7.	Petty Cash	Limited	24 June 2013

Audit Title 1	Travel and Subsistence
Scope	A Travel and Subsistence audit report was previously issued where there were 4 high graded recommendations and agreed actions. It is our normal practice to follow up final reports after six months of issue but a three monthly follow up was requested in this instance by Cllr. Seaton. This review has been undertaken in order to gain assurance that agreed actions in the report have been implemented satisfactorily.
Findings and Conclusions	<p>Overall there has been little change in the payroll control framework between the original report and this follow-up review. The key issues can be categorised as follows:</p> <p>Corporate Compliance It was disappointing to note that, even following a reminder being published on Insite some employees continue to complete their claims incorrectly and that these claims are then authorised by managers who have not undertaken the required checks. It was evident from the testing that a key area for non-compliance with the Travel and Subsistence Policy is within Children's Services, and this will be raised by the Executive Director of Strategic Resources with the Corporate Management Team.</p> <p>Systems Administration Both the original audit and this follow-up revealed errors made by payroll staff when processing claims. Human error is to be expected in any system, but it is important that the controls already in place to mitigate against such risks are operated effectively.</p> <p>New developments since the inception of the Peterborough Serco Strategic Partnership will ensure that a more robust stance on non-compliance is taken. This and implementation of the recommendations within this report will improve the control framework to a satisfactory standard.</p>

Audit Title 2	Direct Payments
Scope	<p>The purpose of the audit was to:</p> <ul style="list-style-type: none"> • Assess the adequacy and effectiveness of controls over the set-up, payment and ongoing monitoring of Direct Payments to care service users. • Undertake a full systems based review of the process for issuing and monitoring Direct Payments made to care service users to ensure that the process provides accountability for public funds being used.
Findings	<p>From our audit testing there is evidence that one out of fourteen Direct Payment cases checked was not subject to an annual reassessment. At the time of the audit, the latest "Monthly Breach Report" on overdue care reassessments indicated that out of a total of 5102 care cases managed by the ASC team, 58 had an overdue reassessment greater than one year.</p> <p>Direct Payments Policy and Procedures are currently in draft form and have not yet been finalised and approved. The Policy and Procedures are required to outline the framework for which Direct Payment packages are to be managed and maintained to help ensure that service users receive appropriate care without financial abuse of the funding they receive.</p> <p>A completed and signed Direct Payment Agreement contract was not available for review in 64% of case files checked as part of this audit (not held on the paper file or the electronic RAISE system).</p> <p>At the time of the audit there was evidence of a significant backlog of submitted financial records awaiting review by the Adult Social Care Placement & Client Income Team (161 service user records as at 18/05/12). Arrangements are being made to recruit a temporary Direct Payments Monitoring Officer dedicated to reviewing records and pursuing outstanding expenditure information. This post will initially last for 12 months, and will be reviewed with the possibility of a permanent position being created.</p> <p>Audit testing of case files revealed that there is evidence that some service users are not submitting any financial records (7%) or insufficient financial records (64%). There is also evidence of expenditure that does not support the required care package for which Direct Payment funding should be used (28%)</p> <p>The RAISE case file system provides an effective communication link between personnel checking the Direct Payment expenditure records and Care Support staff who liaise directly with service users. The RAISE system is effective at recording electronic case file notes.</p>

<p>Audit Title (continued)</p>	<p>2</p>
<p>Conclusions</p>	<p>Direct Payments</p> <p>Adult Social Care management need to ensure that case reassessment timescale breaches are reported, monitored and actioned to ensure statutory requirements for care case reviews are fulfilled. Without adequate care reassessments taking place, Adult Social Care management are unable to demonstrate that they are fulfilling their responsibilities for providing ongoing appropriate social care.</p> <p>Recent Direct Payment applications are supported by completed and signed Direct Payment Agreement contracts, but there appears to be an historic issue for older cases where signed Agreements were not always obtained.</p> <p>ASC management need to improve the way in which submitted financial records are assessed to ensure that Direct Payment expenditure evidence is subject to timely review. This is important for identifying and escalating instances of potentially inadequate care provision and/or financial abuse of the Direct Payment funding.</p> <p>Due to the extent of the issues arising from this audit, and due to the statutory breach implications, limited assurance is provided over the control environment for managing and monitoring Direct Payment care packages.</p> <p>The audit opinion is Limited Assurance.</p>

Audit Title 3	Contracts Tendering Review
Scope	Internal Audit was requested to undertake a review where it had been identified that an ex-employee was involved in producing tender documentation for a company. Concerns were raised regarding unauthorised access to information which could have resulted in an unfair advantage being gained by the company. The review was to establish if information had been gained by unfair means and whether the company should be excluded from the tendering process.
Findings	<p>It was established that:</p> <ul style="list-style-type: none"> • Unauthorised access had been gained to PCC's web-based archive system by an ex-employee; • The administrator of the system had not been advised of the individuals resignation and access rights had therefore not been removed; • Information had been viewed or downloaded from historic tendering exercises detailing information pertinent to the current tendering exercise; • The current system prevented tender submissions being viewed prior to the tender closure date and it was therefore not possible to access the current tendering exercise information therefore the tendering process had not been compromised other than for the one company who obtained an advantage by having access to archived information. <p>Analysed information and the resultant findings were passed to the police who agreed to formally investigate the case. The outcome was an admission of guilt, resulting in a formal caution being issued and the company's withdrawal from the tendering exercise.</p>
Conclusions	<p>The review highlighted control issues surrounding web-based systems in operation where access can be obtained without the need to first access PCC's portal. Whilst ex employees access rights are normally removed from PCC's main systems there appears to be a breakdown in administrators overseeing web-based systems being advised when staff leave the organisation.</p> <p>The audit opinion is Limited Assurance.</p> <p>A further piece of work has now commenced to establish whether this issue is widespread and to ensure that controls are strengthened to avoid future issues of this type.</p>

Audit Title 4	Water City Festival
Scope	Internal Audit was asked to review the governance arrangements in place within the Operations Directorate for the procurement and payment of special events, in particular the delivery of the Peterborough City Water Festival.
Findings	The cost for the delivery of the event was expected to be in the region of £15,000, excluding sundry costs, and would be borne within the city events budget. Due to the unique nature of the event – there was no other provider – contract regulations stipulate that an exemption report would be required as there would be no competition / quotation received. While the event was known for sometime, there were numerous delays in producing this exemption report. In addition, there was also a lack of information relating to the supplier. This then hindered the payment process.
Conclusions	<p>Poor governance arrangements have been in place for organising and managing the event and while there are appropriate processes in place across the Council these have not been followed to ensure transparency of decisions etc.</p> <p>A number of recommendations have been made in the report and a consideration should be given as to whether or not disciplinary action should be initiated.</p> <p>The audit opinion is Limited Assurance.</p>

Audit Title 5	School C Payroll Review
Scope	<p>The purpose of the audit was to:</p> <ul style="list-style-type: none"> • Review payroll controls in operation at the school to ascertain their effectiveness, and to make recommendations on how controls could be improved • Review claims for additional payments to ensure they had been appropriately authorised <p>The scope included: starters and leavers, deductions, variations to pay, pay run processes, transfer of information to and from the provider, and security of data.</p>
Findings	<p>The payroll processes operated in school do not demonstrate an effective separation of duties. Both the Headteacher and Finance Manager have the ability to process and authorise the payroll independently and testing demonstrated that system had been compromised in the following ways:</p> <ul style="list-style-type: none"> • Approximately one-third of claim forms (18) submitted via the EPM portal for variations to pay (e.g. additional hours, supply hours, or mileage) since March 2012 had not received written authorisation from the Headteacher. 12 instances occurred during the 2012 summer holiday. There were also numerous instances of retrospective authorisation (i.e. after the claims were entered to the portal); • In addition to claims not being authorised in writing, 5 examples were also identified where claim forms had not been produced to support the payment. • The Finance Manager has made five claims for additional payment since July 2011. Of these two appear to have been authorised appropriately prior to payment, two were authorised retrospectively, and one mileage claim has been paid without any authorisation; • Whilst EPM have confirmed that a password has been issued to the previous Headteacher they have similarly commented that there has never been any log on registered into the payroll portal. Audit trail detail obtained has identified that portal activity has been limited to the Finance Manager. As the Finance Manager does not routinely print off and save payroll reports outside of the portal, it suggests that the previous Headteacher could not have viewed them and therefore not have had the ability to authorise the payroll for payment as correct. • The payroll portal is web-based, and usernames are based on generic e-mail addresses. As the original Headteacher's username was reassigned to her replacement, and the password has never been changed, the two former Headteachers could in theory both still access the portal. • Current payroll processes and responsibilities at the school were not documented.
Conclusions	<p>There should be separation of duties between officers able to process data and those able to authorise the payroll. Whilst it was understood that verbal management authorisation for the payroll was common practice, there is limited evidence to support that this has taken place and the school is therefore exposed to risks of error, fraud and does not protect the staff involved from allegations of impropriety. The audit opinion is No Assurance.</p>

Audit Title 6	VAT Self-Billing
Scope	<p>The objective of the audit was to:</p> <ul style="list-style-type: none"> • To review the context for using self billing arrangements; • To verify the process followed for delivery of the service; • To identify potential gaps in the process and to make appropriate recommendations to improve. <p>It is outside of the scope to quantify the cost of VAT in dispute, if any, and this analysis would be undertaken by Finance.</p>
Findings	<p>The key findings identified during the review were:</p> <ul style="list-style-type: none"> • Self billing agreement expired at the end of the calendar year and (as at 28 February 2013) has not yet been renewed. Based on the information on the HRMC website, this would be classed as a breach of the terms of the use of the agreement and could also result in a punitive fine; • Although remittance schedules should be provided on a timely basis by the customer this has not always been followed. Since the early identification of the concern, efforts are made to chase these up in order to allow for appropriate reconciliation; • There is no separation between payments relating to goods provided through the self billing arrangement and those provided through additional orders. Without the BACS remittance schedules being always provided, there is an inability to reconcile. In addition, those payments relating to separate orders will also include VAT; • Analysis of the electronic summaries provided suggest that there are anomalies in the calculation of tax. Figures recorded equate to 17½%, but this should be 20% from January 2011. (Note this is an issue for Perkins to resolve); • There is limited monitoring of income other than the “bottom line” position; • Early disclosure of a potential VAT under payment is required to HMRC; and • Going forward, as a consequence of the under payment of VAT there will be a need to review the financial viability of the service.

Audit Title (continued)	6	VAT Self-Billing
Conclusions	<p>VAT self-billing arrangements are used where the customer is in a better position to determine the amount and value of the goods supplied. For it to operate effectively there needs to be appropriate processes in place in order for output tax to be declared correctly between the customer and the supplier. This arrangement has to be updated on an annual basis.</p> <p>From the records available, Westcombe Engineering has used self-billing prior to the service returning to the Council and this has continued under the stewardship of City Services through to the current day within Strategic Resources. It has not been possible to review the VAT issue prior to February 2009 as records relating to the previous operations were removed by the receivers, a separate entity not part of this HMRC issue.</p> <p>Arrangements are such that the customer (Perkins) prepares invoices based on the goods obtained from the supplier (Westcombe). Payments are made direct to the Council through the BACS system and coded to Westcombe Engineering. This approach should reduce the need to raise invoices by Westcombe. For this to be effective there is a requirement for the customer to provide appropriate information to back up the payments. This includes details of the goods received, the goods paid for, and the appropriate split of VAT.</p> <p>While this has operated for a number of years there has been limited need to review the arrangements. Goods have been provided and income received. VAT has been at a standard 17½%. Income received has been recorded in the ledger and the bottom line income position monitored and has been in line with expectations. From January 2011, VAT was increased to 20%.</p> <p>The level of debt outstanding on Accounts Receivables was queried as the customer had intimated that monies had been paid, thus suggesting that they had not been posted correctly to the accounts. Remittance advice received were reviewed and verified against the ledger. It was concluded that income was not having VAT deducted at point of posting by the cash office i.e. recording income gross rather than net. As a result income levels were overstated. From additional analysis undertaken by Finance, it would suggest that this also covered the previous periods with the VAT rate of 17½%.</p> <p>From interrogation of the records held there are a number of invoices which appear outstanding and these need to be verified with Perkins to ascertain the true financial position. Comprehensive information is required from Perkins to verify this and for going forward. Once the list of all goods issued and paid is established, should there be an under payment of VAT, this will enable the Council to liaise with HMRC to make an early declaration into the payment of additional VAT. In accordance with VAT regulations, this additional payment could go back up to 4 years, together with any associated interest recovery. The current exposure shows a VAT adjustment of £504,011-73 made up of £395,804-48 prior year and £108,207-25 for 2012 / 2013.</p> <p>The audit opinion is Limited Assurance.</p>	

Audit Title 7	Petty Cash
Scope	A review of petty cash was undertaken following a report that approximately £1,000 had gone missing from the Children's Social Care petty cash tin. This has also been referred to the Senior Corporate Compliance Officer for special investigation and reported to the police. The purpose of the audit was to review the current procedures for the administration of the petty cash for Children's Social Care to ensure that the risk of theft is minimised.
Findings	<p>The main areas for improvement were:</p> <ul style="list-style-type: none"> • Improving security of the cash tin and associated keys • Minimising the number of staff with access to the cash tin • Improving compliance with existing controls, such as spot checks, reconciliations and handover procedures • Reviewing the level of cash held
Conclusions	<p>The Children's Social Care petty cash account is administered by Serco. The recommendations made, whilst improving the control environment, will not prevent theft from occurring. However, they seek to reduce the likelihood of theft, the level of any loss, and increase the chances of detecting who may have taken the money.</p> <p>The audit opinion is Limited Assurance.</p>

This page is intentionally left blank

AUDIT COMMITTEE	AGENDA ITEM No. 6
24 JUNE 2013	PUBLIC REPORT

Cabinet Member responsible:	Councillor Seaton, Cabinet Member for Resources	
Committee Member responsible:	Councillor Lamb, Chair of Audit Committee	
Contact Officer(s):	Steve Crabtree, Chief Internal Auditor	☎ 384 557

ANNUAL REVIEW OF THE EFFECTIVENESS OF INTERNAL AUDIT – 2012 / 2013

R E C O M M E N D A T I O N S	
FROM : John Harrison, Executive Director (Strategic Resources)	Deadline date : N/a
Committee is asked to:	
1. Consider and endorse the annual review of the effectiveness of Internal Audit 2012 / 2013.	

1. ORIGIN OF REPORT

1.1 This report is submitted as part of the Audit Committee work programme for 2013 / 2014.

2. PURPOSE AND REASON FOR REPORT

2.1 The Terms of Reference for the Audit Committee (agreed at Full Council) set out the key roles of the Committee including the following “2.2.1.3 *To consider reports dealing with the management and performance of the providers of internal audit services*”.

2.2 In accordance with the requirements of the Accounts and Audit Regulations 2011 the Council conducts an annual review of the system of internal audit to be considered as part of its governance assurance processes, including the production of the Annual Governance Statement.

3. INTERNAL AUDIT EFFECTIVENESS

3.1 The Accounts and Audit Regulations require all Councils to review their systems of internal control and to provide an adequate and effective Internal Audit function. From 2011, they required that an annual review should be referred to the appropriate committee.

3.2 To address the Accounts and Audit Regulations 2011 requirement, an assessment of Internal Audit has been carried out which is presented for consideration by Audit Committee. It contains an opinion on the effectiveness of the service including a self-assessment against the new Public Sector Internal Audit Standards (referred to Audit Committee in March 2013).

3.3 The review was undertaken by the Chief Internal Auditor and the report (**Appendix A**) is presented for Members’ consideration and comment.

4. CONCLUSION

- 4.1 Consideration of a range of views on the effectiveness of Internal Audit operating within the Council during 2012 / 2013 indicates that this has been both appropriate and effective. **The report demonstrates that the Council has an effective system of internal audit including a policy framework, internal audit function, audit committee and effective management engagement.**

5. CONSULTATION

- 5.1 This report has been issued to the Head of Strategic Finance for consideration.

6. ANTICIPATED OUTCOMES

- 6.1 It is reasonable from all the assurances now available to the Council to conclude that a sound system of internal audit operated throughout 2012 / 2013.

7. REASONS FOR RECOMMENDATIONS

- 7.1 To seek endorsement from Members that internal audit within the authority is being delivered and provide effective challenge to the organisation.

8. ALTERNATIVE OPTIONS CONSIDERED

- 8.1 None required at this stage.

9. IMPLICATIONS

This report contains no specific financial implications.

10. BACKGROUND DOCUMENTS

Used to prepare this report, in accordance with the Local Government (Access to Information) Act 1985)

- Internal Audit Plans;
- Internal Audit Charter;
- Accounts and Audit Regulations 2011;
- Statement of the Role of the Head of Internal Audit, CIPFA, 2010; and
- Public Sector Internal Audit Standards 2013

11. APPENDICES

- Appendix A: Annual Review of the Effectiveness of Internal Audit

ANNUAL REVIEW: EFFECTIVENESS OF INTERNAL AUDIT

2012 / 2013

1.	BACKGROUND
2.	CURRENT ARRANGEMENTS FOR INTERNAL AUDIT
3.	BASIS FOR OPINION <ul style="list-style-type: none">• Staff Resources• Training and Experience• External Audit Opinion• Public Sector Internal Audit Standards (PSIAS)• Statement of Role of Head of Audit• Risk Management and Governance Arrangements• Audit Committee
4.	CONCLUSION
5.	COMPLIANCE AND QUALITY IMPROVEMENT PLAN (PSIAS 1320)

1 BACKGROUND

- 1.1 The Accounts and Audit Regulations 2011 require all Councils to annually review the effectiveness of its internal audit and to present the results of that review to the appropriate committee.
- 1.2 An assessment of Internal Audit has been carried out which is presented for consideration by Audit Committee. It contains an opinion on the effectiveness of the Internal Audit Service including a self-assessment against “*The Public Sector Internal Audit Standards 2013*”. An action plan has been put in place to ensure future compliance.

2 CURRENT ARRANGEMENTS FOR INTERNAL AUDIT

- 2.1 Internal Audit at Peterborough is provided through an in-house team (see 3.1) which is part of Strategic Resources, headed up by the Chief Internal Auditor (CIA). It works closely with others in the Council tasked with assurance, governance and risk management but retains a separate identity in relation to the performance of Internal Audit.
- 2.2 The CIA reports to the Head of Strategic Finance and the Executive Director of Strategic Resources but also has direct access, if required to the Chief Executive, Council Leader, Executive Members and the Chair of Audit Committee.
- 2.3 Due to its size, the section is not structured around client / service based teams or Council directorates. This has allowed the opportunity for auditors to develop a depth of knowledge / relationships with customers in relation to the work of a number of services rather than specific areas. However, a number of officers have specific technical attributes that provide the organisation with a “first point of contact”. This provides some continuity to the customer who can regularly deal with the same auditor over a period of time.
- 2.4 The overarching strategy for the service is set out in the Annual Audit Plan (approved in March 2013 by Audit Committee) and this is reiterated in its Audit Charter. Internal Audit work follows recognised best practice standards and is independently reviewed by External Audit.
- 2.5 To examine the system of internal audit, this review considered several key elements and assessed their contribution to enabling the section to fulfil its responsibilities. These were:
 - The structure and resourcing level, including qualifications and experience of the audit team;
 - The extent of compliance with the Public Sector Internal Audit Standards;
 - Comparison with the Statement on the Role of the Head of Internal Audit;
 - Ensuring that the Section successfully audits the most appropriate areas on a prioritised (risk) basis; and
 - The performance of the audit team (details of which are reported in the Annual Internal Audit Opinion report).

3 BASIS FOR OPINION

3.1 Staff Resources

3.1.1 During 2012 / 2013, resources were made up as follows:

- Chief Internal Auditor. 1 officer. Full time post is split 50:50 with Cambridge City Council. NB: The available time provided for Peterborough will reduce further from July 2013 when South Cambridgeshire District Council joins the shared service.
- Group Auditor. 2 officers. 1.46 FTE
- Principal Auditor. 1 officer. 0.60 FTE. Postholder went on maternity leave from February 2013.
- Senior Auditor. 2 posts. 2.00 FTE. One post vacant.
- Auditor. 2 posts. 2.00 FTE. One post vacant.

3.1.2 The team held two vacant posts during the year. During the first 3 months of the 2012 / 2013, Internal Audit employed an agency auditor to undertake a number of key activities. Two further temporary placements were made in February / March 2013 to fulfil a number of key year end reviews. This provided 15 weeks worth of resource. It is planned to recruit to the vacancies in 2013 / 2014.

3.1.3 As well as undertaking the 2012 / 2013 plan, there were some audits carried forward from 2011 / 2012 to be completed in Quarter 1.

3.2 Training and Experience

3.2.1 Training plans encourage ongoing improvement via both career progression and continuing professional development. There is a varied mix of qualifications / experience within the team such as:

Audit experience:

- Peterborough City Council service ranges from a minimum of 6 years to over 25 years (21 of which within the Internal Audit environment); and
- Previous work experience with banks, accountancy firms, other local authorities and public sector organisations.

Qualifications:

- Qualified Accountants – CIPFA (x1);
- Institute of Internal Auditors – Member (CMIIA x2); Practitioner Level (PIIA x1); Certificate Level (CIIA x1)
- Association of Accounting Technicians – Member (MAAT x1)

- 3.2.2 The level of experience of audit staff remained constant during the year. There was some staff rotation to enable a breadth of experience and for continuing professional development and this will continue based on operational need and the priority and timing of work. This approach provides increased flexibility to meet audit needs, particularly in time specific and statutory audits.
- 3.3 **External Audit Opinion**
- 3.3.1 External Audit comment in the Annual Audit Letter on the adequacy, or otherwise, of Internal Audit as well as other governance arrangements. The latest report taken to Audit Committee concluded that they could place reliance on the work of Internal Audit.
- 3.3.2 Liaison with the external auditor continues to be productive and offers the opportunity to co-ordinate audit plans and to share information and to inform risk assessments. The Section agreed the scope and approach to auditing the core financial systems enabling Internal Audit to deliver work of increased value to the Council whilst ensuring that the needs of the external auditor are addressed.
- 3.4 **Public Sector Internal Audit Standards (PSIAS)**
- 3.4.1 PSIAS came into effect from 1 April 2013, although demonstrating compliance against them is not required until 31 March 2014. A copy of the standards was on the Audit Committee agenda in March 2013 together with an initial overview. Specific guidelines to their adoption by Local Government organisations have now been issued (6 April 2013) and these have been used to provide a checklist for establishing the degree of compliance. Following analysis, a summary improvement plan (as per Standard 1320) is set out in Section 5 below.
- 3.4.2 Following the review, in accordance with standard 1322, significant deviations to the standards must be reported. It is pleasing to note that only minor issues have been identified – such as continuing to regularly review our procedures (which are undertaken anyway) and the new requirement for an external appraisal of the service. It can be concluded therefore that there are **no significant areas** to be addressed.
- 3.5 **Statement on Role of Head of Internal Audit**
- 3.5.1 CIPFA published its Statement on the role of the Head of Internal Audit (HIA) in public service organisations in December 2010 following widespread consultation. The statement sets out best practice for HIAs to aspire to and for Audit Committees and others to measure internal audit against. As well as articulating the core responsibilities of the HIA, it also identifies the personal and professional skills needed.
- 3.5.2 Based on five principles, it defines the core activities and behaviours that belong to the role of the HIA and the organisational arrangements needed to support them. For each principle it sets out the governance arrangements required to ensure that HIAs are able to operate effectively and perform their core duties. It also sets out the core responsibilities of the HIA.
- 3.5.3 There are a series of attributes and personal qualities which sit below these principles, some subjective. A full review against the standards was undertaken and reported to Audit Committee in June 2012. This indicated that the role of the Head of Internal Audit at Peterborough met the underlying aims of the five principles. Minor improvements were identified and these are also highlighted within the new PSIAS.

3.6 **Risk Management and Governance Arrangements**

- 3.6.1 Prioritisation of the work of the Audit Section is achieved by the development and delivery of an annual risk based Audit Plan. This describes the assurance plans for the Section and includes some capacity for flexibility to adjust to changing circumstances and for demand led and urgent work if appropriate. The plan is based on a mix of different types of audit and risk based work to ensure that assurance over the Council's systems of governance, risk management and internal control is obtained from a number of different directions and sources.
- 3.6.2 The Section's methodology for establishing audit priorities is aligned with the Council's governance and risk management systems. Audit plans are developed through an assessment of risk and assurance needs to support the Council's overall objectives. The Section reviews corporate risk registers, business plans and discusses Council objectives and priorities with Directors and Heads of Service to assess assurance needs. The Audit Plan is discussed and approved by Audit Committee in March each year.
- 3.6.3 It is considered that the 2012 / 2013 Audit Plan represented a reasonable view of critical areas for audit review and assurance needs when it was constructed and agreed with senior management and Committee. During the year some audit work was deferred or cancelled due to the timing of the audits and additional coverage elsewhere – either due to increased risk or special requests.
- 3.6.4 For 2013 / 2014, the agreed Audit Plan again show links to the corporate aims / objectives in order to clearly demonstrate how audit work relates to the achievement of Council objectives.

3.7 **Audit Committee**

- 3.7.1 The system of Internal Audit includes the role of the "Audit Committee" and in particular its role in the receipt and evaluation of audit reports, both in terms of assurance opinions and in ensuring that appropriate arrangements are in place for the delivery of an effective service. The arrangements for the Committee increased in 2012 / 2013 with there amalgamation with the previous Standards Committee although there was continuity of membership. Regular briefings took place with the Chair of Audit Committee and separate training sessions provided when requested. There is an Audit Committee handbook, referred to Audit Committee in June 2012 which will be refreshed in 2013 / 2014.
- 3.7.2 All final audit reports are issued to appropriate Officers / Members in accordance with the service protocols. Key issues are referred to Audit Committee as part of ongoing progress reports.

4 **CONCLUSION**

- 4.1 Consideration of a range of views on the effectiveness of Internal Audit operating within the Council during 2012 / 2013 indicates that this has been both appropriate and effective. **The report demonstrates that the Council has an effective system of internal audit including a policy framework, internal audit function, audit committee and effective management engagement.**

5 COMPLIANCE AND QUALITY IMPROVEMENT PLAN (PSIAS 1320)

For the purposes of the review, the following definitions are used:

- Chief Audit Executive (CAE) = Chief Internal Auditor
- Board = Audit Committee
- Senior Management = Corporate Management Team

Ref.	STANDARD	COMMENTARY	ACTION
1000	Purpose, Authority and Responsibility The purpose, authority and responsibility of Internal Audit activity must be defined in an Internal Audit charter, consistent with the <i>Definition of Internal Auditing</i> , the <i>Code of Ethics</i> and the <i>Standards</i> . This should be approved by Senior Management and the Board.	The Audit Charter is regularly reviewed. The last update was referred to Audit Committee in March 2013. There is a separate Audit Manual which details the processes/practices followed within the Section. While not a document which is not required to be approved, it needs to be consistent with the approved Charter.	The Audit Charter and Audit Manual will be compared with the new Standards to ensure compliance. The Charter will be submitted to senior management and the Board for approval with the Audit Plan the next Audit Plan.
1110	Organisational Independence The CAE must establish effective communication links with the Chair of the Board and Chief Executive The CAE must not report to or be managed at a lower level within the organisation than the Corporate Management Team	There are formal meetings (briefings) with the Audit Committee chair prior to each Committee. While there are no formal meetings with the Chief Executive scheduled, access is available to the Chief Executive on request to discuss control issues / concerns as and when they arise. Functionally, the CIA reports to the Audit Committee and to s.151 Officer (Executive Director of Strategic Resources) who is a member of CMT. For line management purposes, CIA is managed by the Head of Strategic Finance (who is NOT a member of CMT).	Agree with Chair of Audit Committee if there is a need for additional arrangements for liaison / communication meetings
1220	Due Professional Care Internal auditors must apply the care and skill expected of a reasonably prudent and competent internal auditor. Due professional care does not imply infallibility.	The Audit Manual sets out the standards individual auditors must meet in their allocated assignments. The Manual is based on the previous Code of Practice and therefore needs to be reviewed to take account of any changes required to meet the PSIAS and to reflect improvement made locally since it was last reviewed.	Review and update the Audit Manual

APPENDIX A

Ref	STANDARD	COMMENTARY	ACTION
1300	<p>Quality Assurance and Improvement Programme</p> <p>The CAE must develop and maintain a quality assurance and improvement programme that covers all aspects of the internal audit activity.</p>	<p>The objective is to provide for an assessment of compliance with the PSIAS, together with efficiency and effectiveness of internal audit activity. Previous annual reviews against Code of Practice have been referred to Audit Committee. The programme should also identify opportunities for improvement</p>	<p>This section is to be referred to as the Improvement Programme</p>
1312	<p>External Assessments</p> <p>External assessments must be conducted at least once every 5 years by a qualified independent assessor from outside the organisation. The CAE must discuss with the Board:</p> <ul style="list-style-type: none"> - The form of external assessments. - The qualifications and independence of the external assessor – including conflicts of interest. 	<p>NEW REQUIREMENT.</p> <p>External assessment can be either “full” assessment or self-assessment with independent external evaluation.</p> <p>Ongoing discussions with other local authorities within the county to look to undertake a peer review in order to minimise costs.</p>	<p>Proposals will be submitted to Audit Committee detailing future arrangements and timescales agreed.</p>
2030	<p>Resources Management</p> <p>The CAE must ensure that internal audit resources are appropriate, sufficient and effectively deployed to achieve the approved plan.</p>	<p>The Audit Plan 2013 / 2014 identified the resource gaps between what ideally should be the audit coverage level based on risk assessment and what can be delivered with current staffing levels. Existing vacancies were factored in to be recruited into by the mid point of the year and agreed by Audit Committee. In future years, subject to filled vacancies, the practical reality is that current staffing levels drive the total amount of audit activity given that there is no prospect of any increase in resources in the current economic climate.</p> <p>Resources are deployed subject to the mix of skills, competencies and experience required by each assignment – together with recognition of individual auditors’ development needs. The timing of audits is planned with relevant senior management to minimise abortive work and time – except where unannounced visits are necessary.</p>	<p>Resources will be regularly reviewed to ensure appropriate coverage can be maintained. This will enable the CIA Opinion to be annual provided.</p> <p>Any significant changes will be reported to Audit Committee.</p>

This page is intentionally left blank

AUDIT COMMITTEE	AGENDA ITEM No. 7
24 JUNE 2013	PUBLIC REPORT

Cabinet Member responsible:	Councillor Seaton, Resources Portfolio Holder	
Committee Member responsible:	Councillor Lamb, Chair of Audit Committee	
Contact Officer(s):	Steve Crabtree, Chief Internal Auditor	☎ 384 557

DRAFT ANNUAL GOVERNANCE STATEMENT 2012 / 2013

R E C O M M E N D A T I O N S	
FROM : John Harrison, Executive Director (Strategic Resources)	Deadline date : N/a
Committee is asked to:	
<ol style="list-style-type: none"> 1. Note the arrangements for compiling, reporting on and signing the Annual Governance Statement; 2. Review and comment on the Annual Governance Statement (Appendix C) including any areas which should be amended; and 3. Subject to changes identified above, agree and approve the draft statement for inclusion in the audited statement of accounts, published by 30 September 2013. 	

1. ORIGIN OF REPORT

- 1.1 This report is submitted as part of the annual closure of accounts process and is included in the Audit Committee work programme for 2013 / 2014.

2. PURPOSE AND REASON FOR REPORT

- 2.1 The production of the Annual Governance Statement (AGS) forms part of the annual closure of accounts process. It is not a financial exercise, but represents a corporate overview of the processes and procedures adopted by Peterborough to manage its affairs.
- 2.2 The Terms of Reference for the Audit Committee (agreed at Full Council) set out the key roles of the Committee including the following "2.2.1.15 *To oversee the production of the authority's Annual Governance Statement and to recommend its adoption*".

3. BACKGROUND

- 3.1 The preparation of an AGS is necessary to meet the statutory requirements as set out in Regulation 4(3) of the Accounts and Audit (England) Regulations 2011. The AGS covers the Council's governance arrangements for the 2012 / 2013 reporting year.
- 3.2 Historically, the AGS has been published as *part of* the annual Statement of Accounts. Regulation 4 (4) in the Accounts and Audit Regulations 2011 now state that the AGS should *accompany* the published accounts. This is to '*make clear that the Annual Governance Statement is not part of the statement on which the auditor's opinion is given.*'

It is up to the organisation concerned to decide whether the AGS should be included as part of the Statement of Accounts or be issued as a separate document. As in previous years, the Council has agreed to continue to publish the AGS as part of the Statement of Accounts.

- 3.3 This report includes the draft AGS for Audit Committee to review, challenge and advise the Leader and Chief Executive upon accordingly. The report also identifies progress with the 2011 / 2012 AGS and presents the necessary recommendations for Member approval that will allow the Council as a whole to ensure that the AGS is produced in accordance with Chartered Institute of Public Finance and Accountancy (CIPFA) guidance and therefore meet External Audit requirements.

4. SCOPE OF THE ANNUAL GOVERNANCE STATEMENT

- 4.1 Internal control and risk management are recognised as important elements of good corporate governance. The scope of governance, as covered in the AGS, spans the whole range of the Council's activities and includes those designed to ensure that:

- The Council's policies are implemented in practice;
- High quality services are delivered efficiently and effectively;
- The Council's values and ethical standards are met;
- Laws and regulations are complied with;
- Required processes are adhered to;
- Its financial statements and published information are accurate and reliable; and
- Human, financial and other resources are managed efficiently and effectively.

5. ARRANGEMENTS FOR COMPILING THE ANNUAL GOVERNANCE STATEMENT

- 5.1 CIPFA, in conjunction with the Society of Local Authority Chief Executives (SOLACE), have produced a framework for delivering good governance in local government and the Council's Annual Governance Statement for 2012 / 2013 has been drafted in accordance with this framework to ensure the requirements of the regulations referred to above are met. Since 2003 / 2004, responsibility for carrying out these processes has rested with the Chief Internal Auditor. In December 2010, CIPFA issued a statement on "*The Role of the Head of Internal Audit in Local Government*", which states that the Head of Internal Audit should "*set out the framework of assurance that supports the Annual Governance Statement and identify Internal Audit's role within it*", **but** "*should not be responsible for preparing the report*". Due to capacity issues, the decision was made for this to remain with the Chief Internal Auditor.

- 5.2 The assurance gathering process to support the AGS is set out in **Appendix A**.

6. SUPPORTING EVIDENCE

- 6.1 Evidence has been compiled to confirm the governance arrangements in operation across the Council for the period concerned. This sets out how the City Council demonstrates compliance with the principles of good governance and highlights where action is needed to address any weaknesses in the Council's governance arrangements.

6.2 Internal Audit

There are two separate reports on the Audit Committee agenda which are the Annual Internal Audit Opinion 2012 / 2013 together with the Review of Effectiveness of Internal Audit. The key issues are:

- Internal Audit progress reports are included as part of the Committees' Work Programme and any significant control and governance issues or material to the overall control environment of the Council are highlighted;
- The Annual Audit Opinion highlighted some gaps which needed to be addressed;

- Despite some weaknesses, there remains a sound internal control environment. Reasonable assurance is provided and an unqualified opinion put in place;
- There is overall compliance with the CIPFA publication on the Role of the Head of Internal Audit together with the new Public Sector Internal Audit Standards; and
- Overall, positive assurance can be provided on the service.

6.3 In conclusion, the Annual Audit Opinion was presented to the Audit Committee on 24 June 2013. The report gave a reasonable assurance on the overall standard of effective of the internal control framework. In addition, there is an effective Internal Audit in place when measured against the defined criteria as listed above.

6.4 External Audit – PricewaterhouseCoopers (PwC)

Throughout the year, PwC have been commissioned to undertake various reviews which have been circulated and discussed / approved at Audit Committee. PwC provides an Annual Audit Letter giving an overall evaluation of the Council. The content of the letter was reported to Cabinet and Audit Committee (4 February 2013) and overall is positive and states that the Council is performing well. The key messages are:

EXTRACT FROM ANNUAL AUDIT LETTER: 4 FEBRUARY 2013		
Area of Review	Commentary	Opinion
Accounts	We audited the Authority's Statement of Accounts in line with approved Auditing Standards	Issued an unqualified audit report on 28 September 2012.
Economy, efficiency and effectiveness	Our Use of Resources Code responsibility required us to carry out sufficient and relevant work in order to conclude on whether the Authority had put in place proper arrangements to secure economy, efficiency and effectiveness in the use of resources.	Issued an unqualified value for money conclusion.
Whole of Government Accounts	We undertook our work on the Whole of Government Accounts consolidation pack as prescribed by the Audit Commission.	The audited pack was submitted on 28 September 2012. We found no areas of concern to report as part of this work.
Annual Governance Statement	Local authorities are required to produce an Annual Governance Statement (AGS) that is consistent with guidance issued by CIPFA / SOLACE. The AGS accompanies the Statement of Accounts.	We found no areas of concern to report in this context.

6.5 In conclusion, from a Peterborough City Council perspective, the Annual Audit Letter gives assurance in respect of 2011 / 2012 Financial Accounts and confirms an effective system of internal control.

6.6 Executive Directors: Internal Control and Governance Self Assessment

Each Directorate were asked to complete an Internal Control and Governance Self-Assessment and then sign a supporting Statement (**Appendix B**) having reviewed its key control checklists to come to an opinion on the governance arrangements and internal control environment within their service. The areas covered within the assessment were:

- Management Arrangements;
- Health and Safety;
- Business Continuity and Emergency Resilience;
- Equality and Diversity;
- Financial Management;

- Procurement Arrangements;
- Risk Management (including Project Management);
- Performance Management and Data Quality;
- Information Governance;
- Management of People;
- Governance Arrangements, Laws, Regulations, Policies and Procedures;
- Anti-Fraud and Corruption;
- Partnership Governance; and
- Communications and Customer Services.

6.7 Sample testing was undertaken to ensure the robustness of the data supplied. While no adverse comments were received in relation to the controls in place, a number of areas have been identified as requiring attention and these have been reflected in the Action Plan within the Annual Governance Statement.

6.8 Performance Management and Data Quality

As well as the testing identified in 6.6 above, regular reporting of performance is in evidence across the Council. Monthly reports range from financial to non-financial data; covering budgets, performance levels, service delivery, programmes and projects. Regular discussions are held at Corporate Management Team; scrutiny panels and boards and areas of concern identified are addressed to reduce or prevent any deterioration in service.

6.9 Risk Management

Risk management encompasses a number of areas such as projects, performance and partnerships. In addition, there is a corporate risk register which incorporates significant issues which could have a major impact on the strategic delivery of the Council's objectives. A revised strategy was adopted in the year and incorporated Business Continuity. There has been progress on developing risk registers which have been referred to Audit Committee (the latest being in March 2013), and efforts are currently focussed on business continuity.

6.10 Corporate Governance

Regular updates on governance arrangements are reported through Corporate Management Team, Cabinet, Scrutiny Commissions, Audit Committee and ultimately to Full Council. This covers all aspects of governance – from constitutional changes, operational procedures such as Financial or Contract regulations, standards issues and audit and fraud related matters. Significant governance issues established in the Annual Governance Statement are reported to Audit Committee.

6.11 A number of new activities have been identified to be addressed and these include:

- Commissioning and partnerships;
- Public Health integration; and
- Impact of future national spending reviews on services.

6.12 With the ongoing changes across the organisation, there is a pressing need to ensure that corporate governance responsibilities are communicated to all.

7. CONSULTATION

7.1 One of the key messages coming out of the CIPFA / SOLACE guidance is that good governance relates to the whole organisation and there should be corporate ownership of the Annual Governance Statement and governance arrangements. Following drafting, the Annual Governance Statement (**Appendix C**) has been issued to:

- Corporate Management Team (20 May 2013);
- Head of Legal Services (4 June 2013);
- Head of Strategic Finance (4 June 2013); and
- PricewaterhouseCoopers (7 June 2013).

8. ANTICIPATED OUTCOMES

8.1 The draft Annual Governance Statement is being presented to the Members of this Committee for review and advise the Leader and Chief Executive upon, prior to it being signed off by the Leader and the Chief Executive for inclusion in the Statement of Accounts.

9. REASONS FOR RECOMMENDATIONS

9.1 The draft Annual Governance Statement sets out the framework for the Council and identifies some issues where action is planned to improve the level of governance.

10. IMPLICATIONS

10.1 This report contains no specific financial implications. The agreement of the Annual Governance Statement does not have any direct financial implications, however, in order to maintain financial control and address risks as identified within the Statement, Directorates may need to allocate resources from within their existing budgets.

11. BACKGROUND DOCUMENTS:

Used to prepare this report in accordance with the Local Government (Access to Information) Act 1985

- Delivering Good Governance in Local Government – The Framework and Guidance Note for English Authorities – CIPFA / SOLACE.
- The CIPFA Finance Advisory Network – A Rough Guide for Practitioners 2007 / 2008.
- Accounts and Audit (England) Regulations 2011

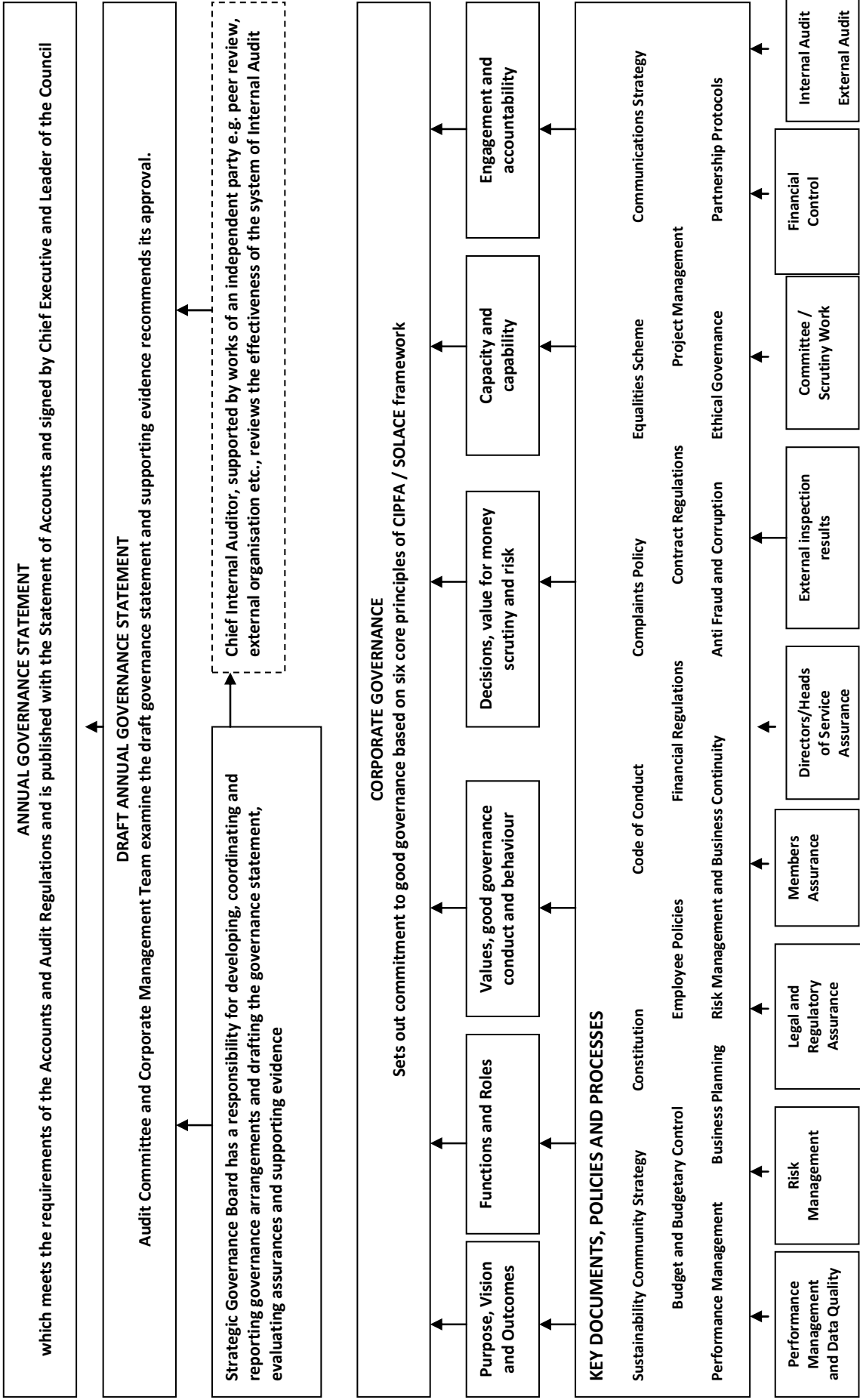
12. APPENDICES

- Appendix A: Framework for the Annual Governance Statement
- Appendix B: Internal Control and Governance Self Assessment / Assurance Statement
- Appendix C: Draft Annual Governance Statement

This page is intentionally left blank

APPENDIX A

PETERBOROUGH CITY COUNCIL FRAMEWORK FOR THE ANNUAL GOVERNANCE STATEMENT



This page is intentionally left blank

INTERNAL CONTROL AND GOVERNANCE SELF ASSESSMENT: FEBRUARY 2013

Introduction and Guidance

Controls and Governance Assurance statements from the officers directly accountable to Cabinet are a key element of the recommended process to assess and report on the Peterborough’s internal control and governance arrangements. The following questions have been designed to prompt those officers to consider the existence, adequacy and effectiveness of their and therefore the Council’s internal control and governance arrangements. This self assessment questionnaire will ensure there is a formal and annual review of internal control and governance to meet the requirements to prepare and publish a statutory Annual Governance Statement (AGS).

In order for each Directorate to provide a full and broad commentary it is recommended that this is discussed and agreed at Departmental Management Teams. The self assessment questionnaire has been developed to prompt consideration of how well various aspects of the internal control and governance framework are working. To assist in the assessment, examples of controls / arrangements have been provided which could be used to demonstrate that the control is in place – this is not an exhaustive list and their may be other examples. The evidence signposted must be tangible and capable of being provided as it may be subject to audit review as part of the AGS process. It is important to remember that there is no need to produce a portfolio of evidence. This self assessment should be a review of the systems, processes and arrangements already operating and in place. A key to the assessment is shown below.

At the end of the self assessment, you are asked to detail any control or governance weaknesses that you have identified and record them on the action plan. Based on the responses to these questions, Executive Directors should be able to complete the control and governance assurance statement for their Department, highlighting any areas requiring improvement.

Assessment Key			
Score	Assessment	Findings / Conclusion	Action Required
1	Disagree strongly	Significant gaps / weaknesses exist or controls non-effective (generally non-compliant)	Actions are identified to secure improvements, improved effectiveness and compliance / improved compliance
2	Disagree slightly	Some gaps / weaknesses exist or controls only partly effective (partial compliant)	Actions are identified to secure improvements, better effectiveness and full compliance and evidence is signposted in support of areas of compliance
3	Agree slightly	Some minor gaps / weaknesses exist but generally strengths outweigh weaknesses and controls are generally effective (generally compliant)	Evidence is signposted in support of areas of compliance and effectiveness and actions are identified to secure improvements in effectiveness and full compliance
4	Agree strongly	Very few or no gaps / weaknesses exist and controls are effective (fully compliant)	Evidence is signposted in support of areas of excellent effectiveness and full compliance

INTERNAL CONTROL AND GOVERNANCE SELF ASSESSMENT: FEBRUARY 2013

CHIEF OFFICER INTERNAL CONTROLS AND GOVERNANCE ASSURANCE STATEMENT

(To be completed in relation to the Directorate based on the self assessment completed)

ANNUAL ACCOUNTS 2012 / 2013: EXECUTIVE DIRECTOR STATEMENT

I am aware that, being responsible for the Department, I am required to provide an assurance statement on the standard of internal control and governance within my area of responsibility to enable the authority to sign the Annual Governance Statement for the annual accounts for 2012 / 2013 in compliance with Regulation 4 of the Accounts and Audit Regulations 2011.

To assist in this process, I can confirm that I have considered the standard of internal control and governance in my area of overall management and responsibility using the completed self assessment questionnaire completed by my Departmental Management Team. Having done that **{please tick either of}**

	<p><i>I can confirm that the control and governance arrangements in my area of responsibility have been, and are, working well. There are, in my opinion, no significant matters arising which would require to be raised specifically in the annual assurance statement.</i></p>		
	<p><i>I wish to draw your attention to the following matters that you may wish to consider in preparing the annual governance statement (and attach list / details). Apart from the above, I can confirm that the control and governance arrangements in my area have been, and are, working well. There are, in my opinion, no other significant matters arising which would require to be raised specifically in the annual assurance statement.</i></p>		
Signed		Date	

INTERNAL CONTROL AND GOVERNANCE SELF ASSESSMENT: FEBRUARY 2013

GOVERNANCE ASSURANCE SELF ASSESSMENT		Yes / No	Additional / Actual Control	Assessment
IC01	Expected Control	Example of Control		
<p>MANAGEMENT ARRANGEMENTS</p> <ul style="list-style-type: none"> The Council and its services are constantly changing. It is therefore important that management arrangements are reviewed on a regular basis to ensure that they are still relevant to the needs of the service and its method of delivery. The Council has a service planning process in place which requires that service performance and resources are aligned to the objectives of the Council. The Council has in place a service of Scrutiny Committees that aim to examine policy for and performance of service delivery. 				
The Council can demonstrate that roles and responsibilities of senior management are clearly defined	Job descriptions in place and reviewed as part of the PDR process			
	Structure chart in place			
	Clear line of delegation			
	Structure chart in place			
The Council can demonstrate that there is a clearly defined reporting structure within the service	Management Team terms of reference / agenda / minutes			
	Inclusion in service planning process			
The Council can demonstrate that its structures and methods of working are reviewed to ensure that it is demonstrating value for money	Included in service planning process			
The Council can demonstrate that it has objectives in place to aligned to the Councils vision	Notes of service planning meetings and requirements for recruitment exercises			
The Council can demonstrate that it reviews its management structures and processes as and when vacancies arise	PDR process in place for ALL managerial staff			
The Council can demonstrate that the appraisals of managerial staff include relevant management competencies				

INTERNAL CONTROL AND GOVERNANCE SELF ASSESSMENT: FEBRUARY 2013

GOVERNANCE ASSURANCE SELF ASSESSMENT			
IC02	Expected Control	Example of Control	Yes / No Additional / Actual Control Assessment
<p>HEALTH AND SAFETY</p> <ul style="list-style-type: none"> Health and Safety within the Council is the responsibility of all and this is included within the overarching corporate policy. Managers are responsible for ensuring that risks are assessed, control measures identified, responsibilities for control allocated, procedures are in place and followed and that staff are adequately trained. Due to the diverse number of tasks undertaken by the Council, the impact of Health and Safety legislation on individual work practices will vary significantly, but all service areas will have some risks that require management. The Council has in place a Health and Safety Team which acts as a "competent person" with officers dedicated to give technical help and support on health and safety issues. Policies are drafted and issued and best practice advice given on all new legislation affecting health and safety issues. Policies and procedures are prepared for risks that face all / most services and in Directorates for specific local risks. <p>(NB: In some areas involved with complex risks / or where staff deal with hazardous substances, processes, situations or provide services to children or vulnerable adults, Health and Safety procedures will be more prescribed)</p>			
	The Council can demonstrate that it has completed regular Health and Safety reviews	Evidence of completion of Health and Safety reviews	
	The Council can demonstrate that any issues raised as part of reviews / audits have been included in action plans and that any outstanding issues are being monitored	Health and Safety Action Plan Evidence of management meetings where this has been addressed	
GOVERNANCE ASSURANCE SELF ASSESSMENT			
IC03	Expected Control	Example of Control	Yes / No Additional / Actual Control Assessment
<p>BUSINESS CONTINUITY AND EMERGENCY RESILIENCE</p> <ul style="list-style-type: none"> The Council has a corporate Business Continuity Plan Each service has their own BCP and ER Plans There is a coordinated role to ensure compliance and standardisation across all services 			
	The Council (and its services) has produced a Business Continuity Plan and all key staff have been briefed on their roles and responsibilities as detailed within the Plan.	Evidence of staff training Inclusion in induction training	
	The Council (and its services) has produced a Resilience Plan and all key staff have been briefed on their roles and responsibilities as detailed within the Plan.	Evidence of staff training Inclusion in induction training	

INTERNAL CONTROL AND GOVERNANCE SELF ASSESSMENT: FEBRUARY 2013

GOVERNANCE ASSURANCE SELF ASSESSMENT					
IC04	Expected Control	Example of Control	Yes / No	Additional / Actual Control	Assessment
<p>EQUALITY AND DIVERSITY</p> <ul style="list-style-type: none"> The Equality Scheme outlines the Council's key equality priorities and includes action plans for embedding equality and diversity in all areas of our work Services undertake Equality Impact Assessments and embed their outcomes within their service delivery planning process and publish the results Services are improving their equality performance monitoring and engagement with equality target groups 					
<p>The Council has arrangements in place to undertake Equality Impact Assessments (EqIA) and embeds these within its Service Delivery Plans</p>	<p>A programme of EqIA's outlined in SDP</p> <p>Outcomes of EqIA's published on the intranet</p> <p>Equality and diversity actions arising from EqIA processes are outlined in the SDP</p>				
		<p>Local Equality Performance Indicators are reported in the SDP</p> <p>Equality performance monitoring data used in the EqIA process</p>			
		<p>SDP's include actions to improve the equality performance monitoring undertaken by the Council</p>			
<p>The Council is working towards specific equality objectives</p>	<p>Equality objectives are detailed in the SDP</p> <p>Action plan for achieving these objectives is referred to or include within the SDP</p> <p>Equality objectives are communicated to employees and customers</p>				
		<p>PDR process includes discussion about equality objectives of the service and the equality learning and development needs of employees</p>			
		<p>Employees have been training in the Councils Equality and Diversity policy and objectives and diversity awareness</p> <p>Engagement activity with equality target groups</p>			
<p>The Council understands the diverse needs of its diverse customers and knows how best to meet these</p>	<p>Outcomes of engagement are used in EqIA and SDP process</p> <p>Outcomes are fed back to customers and community groups</p>				

INTERNAL CONTROL AND GOVERNANCE SELF ASSESSMENT: FEBRUARY 2013

GOVERNANCE ASSURANCE SELF ASSESSMENT					
IC05	Expected Control	Example of Control	Yes / No	Additional / Actual Control	Assessment
FINANCIAL MANAGEMENT					
<ul style="list-style-type: none"> The Council has financial regulations that highlights the key controls and responsibilities of officers in relation to the management of the Councils financial performance The statutory Responsible Finance Officer (Executive Director of Strategic Resources) has overall responsibility for ensuring that there are adequate financial management controls in place 					
<p>The Council can demonstrate that it complies with all aspects of the Council's Financial Regulations in relation to the main financial systems:</p> <ul style="list-style-type: none"> Purchase to Pay Payroll Income / write offs / waiving of charges Banking / Cash Property / Land / Buildings Stores / Stock / Equipment Taxation 	Up to date financial procedure manuals				
	Financial training for budget holders				
	Regular reporting of financial activity at service level				
<p>The Council can demonstrate that senior management accept responsibility for financial management</p>	Job descriptions include financial management responsibilities				
	Roles and responsibilities clearly defined / included in procedures				
	Owner identified for all budgets allocated				
	Scheme of Delegation				
<p>The Council can demonstrate that the budget is set to meet service objectives and complies with the Councils Financial Regulations in relation to budgetary control, staffing and resource allocation</p>	Evidence of review and update of SDP with regards to any budget variations				
	Budget set in line with allocated resources				
	Fees and Charges set within corporate policy				
	Evidence of budget review				

INTERNAL CONTROL AND GOVERNANCE SELF ASSESSMENT: FEBRUARY 2013

GOVERNANCE ASSURANCE SELF ASSESSMENT					
IC06	Expected Control	Example of Control	Yes / No	Additional / Actual Control	Assessment
<p>PROCUREMENT ARRANGEMENTS</p> <ul style="list-style-type: none"> Ordering and purchasing arrangements comply with current legislation, EU directives, Health and Safety Regulations and Environmental Policy. The Council has a Procurement Team which undertakes the major supply contracts for the Council, and also provides advice to managers on procurement arrangements Council procurement processes are laid down in Council Standing Orders and Corporate Procurement Strategy guidance. 					
The Council is aware of how to access the Councils Corporate Procurement Guidance (via intranet)		Staff induction includes reference to / demo of procurement and project management			
The Council can demonstrate that relevant staff are aware of the range of procurement training and development opportunities or have received appropriate on the job training		Staff training requirements are noted on PDRs			
The Council can demonstrate that there are management processes in place to ensure that all procurement is undertaken in line with the guidance and Standing Orders and Best Value Principles:	<ul style="list-style-type: none"> Appropriate documentation is retained to substantiate decisions There is a requirement within all orders and contracts for suppliers used to conform to the Councils policies 	PDRs contain appropriate evidence of courses attended			
		Documentation is maintained for all tenders and quotations and there is evidence of the evaluation process being performed			
The Council can demonstrate full and mandatory use of corporate contracts where applicable		Tendering processes are noted			
		Copies of contracts contain the Councils Terms and Conditions of contracting			
The Council can demonstrate a good understanding and compliance with Contract Standing Orders and EU Regulations		Referrals to the Procurement Team			
		Project Plans			
		No breaches identified			

INTERNAL CONTROL AND GOVERNANCE SELF ASSESSMENT: FEBRUARY 2013

GOVERNANCE ASSURANCE SELF ASSESSMENT			
IC07	Expected Control	Example of Control	Yes / No Additional / Actual Control Assessment
<p>RISK MANAGEMENT (INCLUDING PROJECT MANAGEMENT)</p> <ul style="list-style-type: none"> • The Council has in place an agreed Risk Management Strategy • The Council has in place a clearly defined Risk Management process • The Council has in place a senior officer group to coordinate the risk management process • Briefings have been given to staff at various levels within the Council • The Council has adopted Prince2 methodology as the framework for the implementation of all projects 			
<p>Managers and key officers have the skills and knowledge to manage risks effectively and roles and responsibilities are clearly defined</p> <p>The Council risk register(s) identifies the significant risks to the achievement of its objectives and is accurate, complete and up to date</p> <p>The Council has successfully implemented clear risk management structures and processes in accordance with the risk management framework</p>	<p>Details of training provided / PDRs</p>		
	<p>Team meetings include risk management issues</p>		
	<p>Risks discussions at DMTs</p>		
	<p>Included in JD and Pspec for appropriate employees</p>		
	<p>Link to SDP</p>		
	<p>Completed in accordance with the corporate risk management process</p>		
	<p>Register reviews are undertaken in accordance with corporate guidance and completed on time</p>		
	<p>New and emerging risks are considered and added to the register</p>		
	<p>Cross cutting / mutual risks are included</p>		
	<p>Partnership risks are included</p>		
<p>Results of Resilience Team assurance reviews</p>			
<p>The results of risk reviews are reported to Executive Directors</p>			
<p>Red risks are reported and acted upon in accordance with process</p>			
<p>Good quality risk information is included in Cabinet reports in accordance with guidance</p>			
<p>Linked to SDPs</p>			

INTERNAL CONTROL AND GOVERNANCE SELF ASSESSMENT: FEBRUARY 2013

GOVERNANCE ASSURANCE SELF ASSESSMENT		Example of Control	Yes / No	Additional / Actual Control	Assessment
IC07	Expected Control				
RISK MANAGEMENT (continued)					
<p>The Council can demonstrate that projects (ICT and non ICT related) are managed adopting best practice project management techniques incorporating:</p> <ul style="list-style-type: none"> • Effective governance arrangements • Risk management • Benefits realisation • Change management 		<p>Project managers are trained in Prince2 methodology</p>			
		All projects are lodged on Verto			
		Post implementation reviews are undertaken for all projects and are available for inspection			
		Risk register maintained			
		Risk registers are subject to regular review and reporting to the Change Board			

INTERNAL CONTROL AND GOVERNANCE SELF ASSESSMENT: FEBRUARY 2013

GOVERNANCE ASSURANCE SELF ASSESSMENT					
IC08	Expected Control	Example of Control	Yes / No	Additional / Actual Control	Assessment
<p>PERFORMANCE MANAGEMENT AND DATA QUALITY</p> <ul style="list-style-type: none"> The Council monitors performance against priorities and targets, and addresses underperformance The Council understands the needs of its decision makers and provides them with information that is fit for purpose and is used to support decision making The Council produces relevant and reliable data and works with partners to ensure the quality of partnership data 					
<p>The Council can demonstrate an integrated and inclusive approach to managing and challenging performance at all levels within their services</p> <p>The Council can demonstrate due regard and compliance with the Councils data quality standards and arrangements</p> <p>Directors / Heads of Service review and challenge performance information to ensure that all data is accurate, timely and accessible to support decision making</p> <p>Data quality and the use of performance information forms an integral part of the Councils approach to performance management, using performance information and action planning to address risks and tackle areas of underperformance</p>	Service Delivery Plan				
	SDP Action Plan up to date				
	DMT minutes / reports				
	Evidence files for performance indicators reported				
	Evidence of sign off, challenge, changes and integration within service performance management arrangements				
	Evidence of sign off, challenge, changes and integration within service performance management arrangements				
Actions within SDPs and PDRs to demonstrate action taken re: data quality and service improvement and any resulting evidence of changes as a result					

INTERNAL CONTROL AND GOVERNANCE SELF ASSESSMENT: FEBRUARY 2013

GOVERNANCE ASSURANCE SELF ASSESSMENT					
IC09	Expected Control	Example of Control	Yes / No	Additional / Actual Control	Assessment

<p>INFORMATION GOVERNANCE</p> <ul style="list-style-type: none"> The Council has an ICT Strategy and Information Strategy in place The Council has in place an Acceptable Usage Policy The IT services and infrastructure is managed on a daily basis by SERCO as the Councils main contractor The Council has a Data Protection procedure as well as procedures for the Freedom of Information Act 					
--	--	--	--	--	--

<p>IT POLICY</p> <p>All staff have read, understood and implemented the Computer Usage Policy (which covers both electronic and manual information governance) as it relates to their role within the Council</p>					
		All new staff have received initial and refresher training on the Information Security and Computer Usage Policy			
		All new staff are provided with the policy and training as part of their induction checklist			

<p>DATA PROTECTION AND CONFIDENTIALITY RELATING TO PERSONAL INFORMATION</p> <p>The Council can demonstrate that it properly evaluates the impact of the 8 Principles of Data Protection and the Common Law Duty of Confidentiality relating to personal information on proposed new systems.</p> <p>The Council can demonstrate that staff understand their personal liability in relation to unlawful disclosure of personal data</p> <p>The Council can demonstrate that it meets duties under the 8 Principles of Data Protection and the Common Law Duty of Confidentiality relating to personal information</p>					
		Information value assessment made as part of Statement of Requirements			
		Privacy Impact Assessments made as part of Statement of Requirements			
		Clear evidenced of project documentation to mitigate risks both initial and ongoing			
		A clear process for raising staff awareness in this area			
		A clear monitoring and reporting system against the corporate security policy and protocols			

<p>FREEDOM OF INFORMATION AND ENVIRONMENTAL INFORMATION REGULATIONS</p> <p>The Council can demonstrate that it meets duties under Fol and EIR (e.g. access to information requests within 20 days)</p> <p>The Council can demonstrate that it properly evaluates the impact of Fol and EIR on proposed new systems</p>					
		A clear process for raising staff awareness in this area			
		A clear monitoring and reporting system for Fol and EIR requests			
		Clear evidence of project documentation to mitigate risks both initial and ongoing			

INTERNAL CONTROL AND GOVERNANCE SELF ASSESSMENT: FEBRUARY 2013

GOVERNANCE ASSURANCE SELF ASSESSMENT		Example of Control	Yes / No	Additional / Actual Control	Assessment
IC09	Expected Control				
INFORMATION GOVERNANCE (continued)					
IT SYSTEMS					
The Council can demonstrate that access to all systems is set to allow officers to perform their duties		Access levels are reviewed at system change and officer / post changes, consistent with the information within the system. The review is documented The access requirements for individual employees, for all systems, is maintained by service managers The procedure exists for all staff changes of role / leavers to be reported to ICT service desk to remove access rights for centrally managed systems (e.g. email, CRM, shared data drives etc.)			
The service can demonstrate that information which is the responsibility of the Council but provided to other organisations is managed appropriately		The service has documented arrangements for the electronic or physical transmission of information, outside of the Councils secure facilities (networks and buildings) The Council has reviewed with contractors managing information on behalf of the Council; and their compliance with LG data handling arrangements Information Risk Assessments have been completed for all systems access enabled through mobile / flexible / homeworking arrangements Documented arrangements to protect information both manual and electronic when it is removed from the workplace Staff who work remotely or take information out of the workplace are aware of the additional information security risks remote / mobile working entails Procedures and timetables of the reports to be produced, and how these are to be checked and followed up Evidence that the checking of exceptions has taken place			
The Council can demonstrate that arrangements are in place the security of information when it is taken out of the workplace, either on portable devices or where systems are accessed remotely via mobile or home based working or manual information		Job descriptions reflect roles A procedure to identify, monitor and control who system administrators are within each service Systems administrators know which systems they are required to back up and provide recovery arrangements for Back up procedures are fully documented, timetabled and maintained in a register Evidence that periodic system restores have been made from back ups to test the arrangements Data archiving arrangements are in place, data is reviewed annually for readability and procedures are documented			
The Council can demonstrate that for locally managed systems the following have been included:	<ul style="list-style-type: none"> management actively review performance information and management reports to verify that the system is operating in a controlled manner; for example, exception reports, audit logs etc. There are systems administrators in place and ownership for the systems has been accepted i.e. ownership included in job descriptions etc. There is a defined process in place for carrying out backups and recovery arrangements are followed 				

INTERNAL CONTROL AND GOVERNANCE SELF ASSESSMENT: FEBRUARY 2013

GOVERNANCE ASSURANCE SELF ASSESSMENT		Example of Control	Yes / No	Additional / Actual Control	Assessment
IC10	Expected Control				
<p>MANAGING PEOPLE</p> <ul style="list-style-type: none"> The Council has a Human Resources Team that is responsible for developing Council wide processes to comply with legislation and for giving help and advice to managers on their implementation The Council has HR policies and processes accessible to all employees Guidance and advice is readily available from Human Resources to management in relation to key policies and processes with which managers need to comply 					
<p>RECRUITMENT AND SELECTION</p> <p>The Council can demonstrate that it is ensuring compliance with the Council's policy and procedures for recruitment and selection</p>					
	Induction checklist followed				
	Service managers regularly review the appointments process to ensure adherence to the code				
	There is always an accredited interviewer on all selection panels				
	JDs and Pspeccs in place and up to date				
	Appropriate references are maintained on file				
	Health declarations are reviewed by Occupational Health and their comments are retained on file Where this is required, there is evidence that the CRB check has been completed				
	All other pre-employment checks i.e. qualifications, right to work in UK, national insurance number, identity checks etc. are recorded and maintained on the personal file				
	Copies of agency agreements are available				
	A neutral vendor contract to manage agency arrangements including quality compliance is in place				
	The agreements with agency staffing companies require for individuals to be fully vetted prior to being commissioned for work				
<p>EMPLOYEE PDRS AND TRAINING</p> <p>The Council can demonstrate that it is ensuring compliance with the Councils PDR process</p>					
	Induction checklist followed				
	There is an annual process for managers or confirm that PDRs have been taken				
	There is evidence that the Head of Service reviews a sample of PDRs to ensure consistency				
	Staff development plan is used				
	There is evidence of training undertaken				

INTERNAL CONTROL AND GOVERNANCE SELF ASSESSMENT: FEBRUARY 2013

GOVERNANCE ASSURANCE SELF ASSESSMENT			
IC10	Expected Control	Example of Control	Yes / No Additional / Actual Control Assessment

MANAGING PEOPLE (continued)

MANAGING AND SUPPORTING ATTENDANCE AT WORK

<p>The Council can demonstrate that it is ensuring compliance with the Councils Attendance Policy</p>	Trigger reports are received and acted upon		
	There is a record of staff return to work discussions on personal files		
	DMTs consider absence reports		
	The corporate process is utilised and no local systems are maintained		

EMPLOYEE CONDUCT AND DISCIPLINARY PROCEDURES

<p>The Council can demonstrate that all its employees are aware of the existence of the Councils Code of Conduct</p> <p>The Council can demonstrate that it is ensuring compliance with the Councils disciplinary procedures:</p> <ul style="list-style-type: none"> • Training and support is made available to managers involved in the process • Managers review the outcome of disciplinary procedures to ensure that there is a consistency of approach and that any corrective action needed within processes has been undertaken 	Code issued at staff induction		
	PDR records as appropriate		
	Code issued at induction		

DIGNITY AND RESPECT AT WORK

<p>The Council can demonstrate that it is ensuring compliance with policy</p>	Policy issued at induction		
	Review of employee complaints		
	Tribunal cases		

INTERNAL CONTROL AND GOVERNANCE SELF ASSESSMENT: FEBRUARY 2013

GOVERNANCE ASSURANCE SELF ASSESSMENT			
IC11	Expected Control	Example of Control	Yes / No Additional / Actual Control Assessment
<p>GOVERNANCE ARRANGEMENTS, LAWS, REGULATIONS, POLICIES AND PROCEDURES</p> <ul style="list-style-type: none"> The Council has an agreed Constitution and Code of Conduct in place that highlights the key requirements for Corporate Governance The Councils Constitution details the extent of delegated powers and includes procedural and contract standing orders and financial regulations The Council has adopted a Code of Corporate Governance The Council and its individual services / Directorates are subject to external inspection regimes The Council has a legal service who are available to give advice to managers on legal issues and who are responsible for cascading details of relevant legislation to services The responsibilities of statutory officers such as the Monitoring Officer are clearly defined 			
The Council can demonstrate that all relevant employees of the service are aware of their responsibilities to ensure satisfactory levels of internal control are in place	Core corporate responsibilities are included within JDs of relevant managers		
The Council can demonstrate that it has in place systems and procedures to verify that employees are complying with all relevant aspects of the Councils Constitution	Inclusion within the induction process for relevant employees		
The Council can demonstrate that the Councils Monitoring Officer has been made aware of any potential relevant issues of legality	Correspondence within Legal Services		
Trade publications The Council can demonstrate all relevant employees are aware of their statutory responsibilities in relation to their area of service	Detailed in JDs		
	Members of professional bodies / Trade publications		
	Updates from Legal Services		
The Council can demonstrate that individuals are appropriately qualified to undertake the statutory duties:	There is a management process in place to check that required qualifications and competencies of staff undertaking duties.		
<ul style="list-style-type: none"> individuals are given adequate job training to allow them to fulfil their duties advice is given to relevant employees on the Councils Constitution where this is appropriate JDs include detailed requirements of the statutory obligations relating to the post 	Documentation of delegated decisions an where decisions relating to statutory obligations are made, a clear audit trail is in place		
	Detailed and current JDs		
There is a clear process in place to ensure that non-compliance is reported to management at the appropriate level and documented action is taken	There are adequate performance indicators and exception reports to highlight where systems are failing and are reported to management on a regular basis		
	Documentation is maintained of decisions made and actions required		
	Internal Audit reports are received and recommendations implemented		
	Requirements of Financial Regulations are understood		

INTERNAL CONTROL AND GOVERNANCE SELF ASSESSMENT: FEBRUARY 2013

GOVERNANCE ASSURANCE SELF ASSESSMENT			
IC12	Expected Control	Example of Control	Yes / No Additional / Actual Control Assessment
<p>ANTI FRAUD AND CORRUPTION</p> <ul style="list-style-type: none"> The Council has an agreed Policy Statement on Fraud and Corruption and Fraud Response guidance There are several policies in place within the Council that underpin the fraud culture of the Council. These include Code of Conduct for Employees, Whistleblowing Policy etc. Other policies and systems and internal control mechanisms within the Council, in particular in relation to financial regulations and practices, have been designed to minimise the potential of fraud and loss 			
<p>All employees are made aware of the Councils approach to anti-fraud and corruption</p> <p>The Council has undertaken an assessment of fraud and corruption risk within the last 12 months</p> <p>The Council can demonstrate that declarations of interests, gifts and hospitality are completed by all employees in accordance with relevant guidance</p>	<p>Awareness of policies and procedures: - Anti fraud and corruption policy - Whistleblowing Policy - Prosecution Policy - Bulletins circulated</p> <p>Staff required to undertake e-learning package</p> <p>Completion of Fraud and Corruption risk checklist</p> <p>Fraud risks included in risk register</p> <p>Assessment of risks presented by organisational changes</p> <p>Assessment of risks presented by the introduction of new systems</p> <p>Register of gifts and hospitality maintained, reviewed and reported</p>		

INTERNAL CONTROL AND GOVERNANCE SELF ASSESSMENT: FEBRUARY 2013

GOVERNANCE ASSURANCE SELF ASSESSMENT			
IC13	Expected Control	Example of Control	Yes / No Additional / Actual Control Assessment
PARTNERSHIP GOVERNANCE <ul style="list-style-type: none"> Partnership guidance established 			
<p>The Council can demonstrate that the governance arrangements for all significant partnerships have been considered</p> <p>Significant partnerships are where:</p> <ul style="list-style-type: none"> It is a statutory relationship It is critical to the provision of a service and the achievement of objectives It provides a significant proportion of the service income It costs a significant proportion of the service budget It takes decisions on behalf of or which are binding to the Council <p>The Council can demonstrate that the governance arrangements for all other external partners have been considered in accordance with guidance</p>	<p>All significant partnerships have been identified</p>		
	<p>The governance arrangements have been evaluated and all significant deficiencies have been reported</p>		
	<p>Annual reports on significant partnerships are presented to Cabinet</p>		
	<p>The governance arrangements have been evaluated and all significant deficiencies have been reported</p>		

INTERNAL CONTROL AND GOVERNANCE SELF ASSESSMENT: FEBRUARY 2013

GOVERNANCE ASSURANCE SELF ASSESSMENT					
IC14	Expected Control	Example of Control	Yes / No	Additional / Actual Control	Assessment
<p>COMMUNICATIONS / CUSTOMER SERVICES</p> <ul style="list-style-type: none"> The Council has a corporate Communications Team who work with / support Directorates with the aim of ensuring that the activities of the Council are understood by its various stakeholders and, as a result, its image and reputation are improved The Council / services regularly asks for feedback from its customers / clients The Council has a corporate complaints procedure <p>(NB: In some areas (e.g. Children's Services) additional complaints processes are in place to comply with legislation)</p>					
	The Council can demonstrate that there is a process in place to ensure that staff are aware of all the relevant communications procedures - electronic, dealing with the media, advertising etc.	Staff induction checklists			
	The Council can demonstrate that relevant managers and staff have received training in promoting effective communication; both internal and externally.	Staff briefing sessions			
	The Council can demonstrate that there are appropriate processes in place to ensure that staff receive regular formal updates on corporate / Directorate / Service issues.	Included in PDRs			
	The Council can demonstrate that all relevant staff are aware of the Councils feedback process	Arrangements for briefings			
	The Council can demonstrate that it has a clear process for the recording feedback	Briefings			
	The Council has a standard for investigating complaints	Corporate complaints acknowledged, resolved and annually reported			
	There is a clear record to show what action has been implemented as result f the investigation				

INTERNAL CONTROL AND GOVERNANCE SELF ASSESSMENT: FEBRUARY 2013

This Action Plan identifies the areas within the Governance Framework that require improvement					
	Area of Non-Compliance	Reason For Non-Compliance	Corrective Action Proposed	Timescale	Who By
1					
2					
3					
4					
5					
6					

This page is intentionally left blank

**PETERBOROUGH CITY COUNCIL
DRAFT ANNUAL GOVERNANCE STATEMENT 2012 / 2013**

1. SCOPE OF RESPONSIBILITY

Peterborough City Council is responsible for ensuring that its business is conducted in accordance with the law and proper standards and that public money is safeguarded and properly accounted for and used economically, efficiently and effectively. The City Council also has a duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness.

In discharging this overall responsibility, the City Council is responsible for putting in place proper arrangements for the governance of its affairs, facilitating the effective exercise of its functions, and which includes arrangements for the management of risk.

Peterborough City Council has approved and adopted a Local Code of Governance, which is consistent with the principles of the CIPFA / SOLACE Framework *Delivering Good Governance in Local Government*. This statement explains how Peterborough City Council has complied with the Code and also meets the requirements of the Accounts and Audit (England) Regulations 2011 Regulation 4(3) in relation to the publication of an Annual Governance Statement.

2. THE PURPOSE OF THE GOVERNANCE FRAMEWORK

The governance framework comprises the systems, processes, culture and values by which the City Council is directed and controlled and its activities through which it accounts to, engages with, and leads its communities. It enables the authority to monitor the achievement of its strategic objectives and to consider whether those objectives have led to the delivery of appropriate services and value for money.

The system of internal control is a significant part of that framework and is designed to manage risk to a reasonable level. It cannot eliminate all risk of failure to achieve policies, aims and objectives and can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of Peterborough City Council's policies, aims and objectives, to evaluate the likelihood of and potential impact of those risks being realised and to manage them efficiently, effectively and economically.

We have had the governance framework in place from 1 April 2012, and up to the date we approved the Statement of Accounts.

3. THE GOVERNANCE FRAMEWORK

The Council is a complex organisation with an appropriately comprehensive governance framework. The Council works in a dynamic environment and keeps its processes under constant review. Our governance framework derives from six core principles identified in the Independent Commission on Good Governance in Public Services 2004 publication entitled *The Good Governance Standard for Public Services*. These principles were adapted for application to local authorities and published in 2007. The six core principles state that good governance means:

- Focusing on the purpose of the Authority and on outcomes for citizens and service users;
- Performing effectively in clearly defined functions and roles;
- Promoting values for the whole organisation and demonstrating good governance through behaviour;

- Taking informed, transparent decisions and managing risk;
- Developing the capacity and capability of the governing body to be effective; and
- Engaging stakeholders and making accountability real.

The following paragraphs summarise the City Council's Governance Framework which has been in place for the year ended 31st March 2013 and up to the date of approval of this Statement and the Statement of Accounts.

The key elements of each of these core principles are as follows:

3.1: Creating and Implementing a Vision

Good governance means focusing on the purpose of the City Council, on outcomes for the community and creating and implementing a vision for the local area. The following describe how the City Council achieves this:

- Members, working with officers, and its partners, have developed a clear vision of their purpose and intended outcomes for citizens and service users. The Peterborough Sustainable Community Strategy 2008 – 2021 sets out the overarching vision for the Council (and refreshed in 2010) to ensure it continues to reflect the communities needs and changing circumstances. These are:
 - *A bigger and better Peterborough that grows the right way, and through truly sustainable development and growth...*
 - *Improves the quality of life of all its people and communities, and ensure that all communities benefit from growth and the opportunities it brings;*
 - *Creates a truly sustainable Peterborough, the urban centre of a thriving sub-regional community of villages and market towns, a healthy, safe and exciting place to live, work and visit, famous as the environment capital of the UK.*
- In order to achieve the vision, four priorities have been established and these are then set out in a Single Delivery Plan detailing accountability and resources allocations across the partnership. The four priorities are:
 - Creating Opportunities - Tackling Inequalities
 - Creating Strong and Supportive Communities
 - Creating the UK's Environment Capital
 - Delivering Substantial and Truly Sustainable Growth
- By striving to deliver these priorities, the outcomes expected are:
 - Growth, regeneration and economic development of the city to bring new investment and jobs. Supporting people into work and off benefits is vital to the city's economy and to the wellbeing of the people concerned;
 - Improving educational attainment and skills for all of our children and young people allowing them to seize the opportunities offered by new jobs and our university provision thereby keeping their talent and skills in the city;
 - Safeguarding children and vulnerable adults;
 - The Environment Capital agenda including pursuing new income streams from solar energy and wind farm developments;
 - Supporting Peterborough's Culture Trust, Vivacity, to continue to deliver arts and culture in the city.

- Keeping our communities safe and cohesive
- The Vision is reviewed through a variety of means including ongoing analysis of performance information; a review of national and local drivers for change; and consultation with stakeholders, including residents, businesses and partner organisations. Any changes made are cascading through the organisation to inform and amend departmental delivery and business arrangements.
- The Council and neighbouring authorities, and their business, higher / further education and VCS partners have developed a Local Enterprise Partnership (LEP) to provide strategic leadership and joint working in areas such as housing, transport infrastructure, employment and enterprise.
- Regular revisions are made to the Constitution to ensure continuing improvement and simplification, whilst maintaining appropriate governance checks. The Council continues to develop and refine systems for identifying and evaluating all significant risks, via its Corporate Management Team (CMT).
- When the Council works in partnerships, it has a methodology which ensures that there is a common vision underpinning the work of the partnership that is understood and agreed by all partners. These partnerships range from strategic to operational. The overarching vision for partnership working is set out in the SCS.
- A Medium Term Financial Plan (MTFP) and capital programme has been established to ensure that resources are aligned to priorities and was approved in February 2013. The budget process incorporates consideration of the allocation of resources against corporate aims and plans for any financial risks. The MTFP allows annual strategic review in the context of performance against aims and sets targets of efficiency improvement to release resources for use elsewhere. Monitoring reports are submitted to CMT and Cabinet and issues are referred to other Scrutiny Commissions / Committees as appropriate.
- Value for money underpins the strategic priorities. Through reviews by External Audit, external agencies, Internal Audit, and other internal review teams, the Council constantly seeks ways of ensuring the economical, effective and efficient use of resources, and for securing continuous improvement in the way in which functions are exercised.
- The Council has a comprehensive comments, compliments and complaints scheme. This is used to identify areas where service quality is not satisfactory and to take action to improve. As an organisation, the Council is committed to meeting the service needs of a very diverse community and meet the "Equality Framework for Local Government".

3.2: Roles and Responsibilities of Members and Officers

Good governance means members and officers working together to achieve a common purpose with clearly defined functions and roles. The Council aims to ensure that the roles and responsibilities for governance are defined and allocated so that accountability for decisions made and actions are clear.

- The Council is governed by a Constitution which sets out the main control mechanisms and uses the Cabinet model for decisions. This is made up of 12 Members: - Leader, Deputy Leader, 7 Cabinet Members and 3 Cabinet Advisors who are responsible for proposing budgets and policies and taking key decisions in relation to their various portfolios. Cabinet business is governed by written procedures and principles contained in the Executive Decisions within the Constitution. Individual Cabinet members receive regular feedback from senior officers within their portfolios on the progress of objectives. Issues of strategic and corporate importance are referred to Cabinet.

- As well as Cabinet, other Committees are in place to cover the functions of Scrutiny, Regulatory and Neighbourhood Committees.
 - Scrutiny – these can hold the Cabinet to account by reviewing decisions, undertaking reviews of the Council's functions, and consider any relevant matters affecting the city or its residents. Although they have no decision making powers, the various Commissions / Committees are able to "Call In" and review certain decisions of Cabinet. Until the call-in process is completed the decision cannot be implemented.
 - Regulatory – these consider a variety of non-executive functions which Cabinet, by law, cannot undertake or has been agreed should not be considered by Cabinet, for example, Licensing. They are all cross-party and with the exception of Audit Committee, can include cabinet members.
 - Neighbourhood – these were set up across the city to deliver improvements for the local area by identifying, overseeing, monitoring and driving actions to support all issues relevant to the area, including service delivery, service improvements and area developments. As part of the MTFS in February 2013, these were decommissioned.
- An Audit Committee provides assurance to the Council on the effectiveness of the governance arrangements, risk management framework and internal control environment. It also now covers Member conduct.
- The Council's Constitution contains a Code of Conduct for Councillors, protocols advising on the Code of Conduct of Officers and a specific protocol on Member / Officer Relations. It also details each Committees clear terms of reference and work programmes to set out their roles and responsibilities.
- Information bulletins are circulated to councillors on current local government issues and publications and regular briefings are provided on their role. Notices of all key decisions to be taken are published in the Council's Forward Plan. This allows stakeholders to be aware of decisions to be taken and secondly to whom representations can be made. Agendas, reports and published decisions are available to councillors and the general public via the Council's web pages.
- Changes to services provided and new local government legislation during the year was integrated into the ongoing management of the Council. These included:
 - Organisational change:
 - Adult Social Care (from March 2012)
 - Public Health (shadowing from October 2012)
 - New legislation, but not an exhaustive list include:
 - Protection of Freedom Act 2012
 - Public Services (Social Value) Act 2012
 - Welfare Reform Act 2012
 - Health and Social Care Act 2012
- The Council ensures that effective management arrangements are in place at the top of the organisation.
 - The Councils Chief Executive (and Head of Paid Service) leads the Council's officers and Chairs CMT;
 - The Executive Director (Strategic Resources) as the s.151 Officer appointed under the 1972 Local Government Act carries overall responsibility for the financial administration of the City Council. They are also responsible for ensuring that there is an adequate and effective system of internal audit of the Council's accounting records and of its systems of internal control; and
 - The Solicitor to the Council, as Monitoring Officer, carries overall responsibility for legal compliance and the maintenance of high standards of conduct by providing advice and support to Members and Officers.

- Regular CMT meetings are held. In addition, Executive Directors meet their respective Cabinet Members on a regular basis. A Heads of Service Forum supports the work of CMT on a number of issues. In addition, there are a series of officer working groups who meet to deal with a range of specific service as well as cross cutting issues.
- All staff, including senior management, have conditions of employment and job descriptions which set out their roles and responsibilities. Terms and conditions of employment are in line with the harmonisation agreement implemented in 2008, and are regularly refreshed and amended following consultation with Unions. The terms and conditions of members are set out in the Members' Allowances Scheme within the Council's Constitution. The Scheme is approved by Council following preparation and review by an independent Panel at least annually.
- The council maintains an objective and professional relationship with external auditors and statutory inspectors, as evidenced by the Annual Audit Letter.

3.3: Standards of Conduct and Behaviour

Good governance means promoting appropriate values for the Council and demonstrating the values of good governance by upholding high standards of conduct and behaviour. The following describes how the Council achieves this:

- The Solicitor to the Council, after consultation with the Chief Executive and Executive Director (Strategic Resources) can report to Full Council if they consider that any proposal, decision or omission would give rise to unlawfulness or maladministration. Such a report will have the effect of stopping the proposal or decision being implemented until the report has been considered – none was produced in 2012 / 2013.
- The Council has adopted a number of codes and protocols that govern both Member and officer activities defining the standards of behaviour – such as Members Code of Conduct; Officers' Code of Conduct; Member / Officer Protocol; Planning Code of Conduct; Member declarations of interest; Gifts and Hospitality and Grievance procedures.
- The Council takes fraud, corruption and maladministration very seriously. Policies which aim to prevent or deal with such occurrences include the Anti Fraud and Corruption Policy and Fraud Response Plan; Confidential Reporting Code (Whistleblowing Policy); and Human Resources policies regarding disciplinary of staff involved in such incidents.
- We have an Audit Committee which follows CIPFA guidance. Its purpose is to provide independent assurance of the adequacy of the internal control environment and to oversee the financial reporting process. Following Annual Council its role has been expanded, and its membership from 7 to 8, as it has taken on the responsibility for the standards agenda from the Standards Committee (which has been disbanded) so that it has the full remit of responsibilities in respect of governance.
- Corporate Complaints procedures enables the Council to receive and investigate any complaint made against it, a Member or a member of staff.
- The Council's financial management is conducted in accordance with the financial rules set out in the Constitution, the Budget Framework, Financial Regulations, Contract Regulations and Procurement Strategy. These rules set out the framework within which the Council conducts its financial affairs and ensures proper financial arrangements are in place. Furthermore, the arrangements conform to governance requirements set out in the CIPFA "*Statement on the Role of the Chief Financial Officer in Local Government (2010)*". The Council is complying with minimum requirements of the Code of Recommended Practice for Local Authorities on data transparency, such as disclosing Executive salaries and £500 spending transactions.

- Full Council approves a balanced budget before the start of each financial year. This includes the MTFs, annual reviewed, under which it plans its finances, target efficiency savings required and potential council tax implications over a three year rolling period. During the year, budget monitoring reports are taken to Management Teams and Members on a regular basis.

3.4: Decision Making, Scrutiny and Risk

Good governance means taking informed and transparent decisions that are effectively scrutinised and managing risk. The following describes how the Council achieves this:

- The Leader and Cabinet are responsible for all Executive Decisions. Operational matters requiring decision are delegated to Council Officers under the Scheme of Delegations.
- Forthcoming key decisions by Cabinet (including decisions by individual Cabinet Members), are published in the Cabinet's Forward Plan in so far as they can be anticipated. This is reviewed at each Cabinet Meeting.
- Cabinet has power to make decisions that are in accordance with the Council's policy framework and approved budget. Decisions that fall outside the policy framework or approved budget must be referred to the Full Council.
- Council has several committees which carry out regulatory or scrutiny functions which encourages constructive challenge and enhances the Authority's performance overall. Scrutiny Committees have power to review the decisions of Cabinet and Cabinet Members, through the "call-in" process, to determine whether decisions have followed the agreed process and are in accordance with the Council's policy framework and approved budget.
- The Council's Internal Audit service operates in line with appropriate regulations. Responsibility for Internal Audit rests with the Chief Internal Auditor who supports the Audit Committee and reviews its effectiveness annually. There is a managed audit approach which ensures that there is a coordinated approach between Internal Audit and External Audit to avoid duplication of effort. The Internal Audit plans is based on the high risks reported within the risk registers. The Constitution makes it clear that management have the responsibility for operation a sound system of internal control. Internal Audit collaboratively works with services to make recommendations around improvements to the control environment. Reporting lines are within the Strategic Resources Directorate, with reporting lines to the Head of Corporate Services, Executive Director (Strategic Resources) as well as access to the Chief Executive, Monitoring Officer and members as required. Reports, including an assessment of the adequacy of control and action plans to address weaknesses, are submitted to Members (through the Audit Committee), the Chief Executive, Executive Directors and management as appropriate.
- The Council maintains both Strategic and Operational Risk Registers. The Council undertook a fundamental review of its risk management approach, culminating in a revised strategy being adopted in November 2012 which also incorporates business continuity. Regular updates are provided to Audit Committee on its delivery.

3.5: Developing Capacity and Capability of Members and Officers

Good governance means developing the capacity and capability of members and officers to be effective. The following describes how the Council achieves this:

- The Councils structure gives clear accountability for the performance management of services, both within departments and corporately.

- The Council aims to ensure that Members and managers of the Council have the skills, knowledge and capacity they need to discharge their responsibilities and recognise value of well trained and competent people in effective service delivery. The council has maintained its Investors in People award. In developing Members' skills, the Council has an overall development strategy in place.
- Audit Committee focus is on key governance issues such as risk management and internal control, together with scrutiny arrangements for the accounts. Individual briefings are enhanced by an Audit Committee Handbook which is reviewed annually to ensure it is up to date together with appropriate technical releases from the CIPFA Better Governance Forum.
- The council also provides induction programmes tailored to individual needs and opportunities for members and officers to update their knowledge on a regular basis. All new and transferring employees will receive an induction. In addition, key messages are given to all: such as freedom of information and data security, procurement and financial regulations. E-learning tool-kits have been set up to enhance on the job training.
- All officers have comprehensive job descriptions and person specifications and the Council has a process in place to review performance for all staff. Where capability issues are identified, appropriate processes are in place to try to resolve these.
- As the needs of Councils become more and more stretched by finite resources, alternative service delivery methods have been explored. This has led to a number of services being provided in partnership with the private sector. In addition, there has been a development of shared service arrangements with other councils, with Peterborough being the lead authority. These include arrangements with Rutland (for Legal Services and Trading Standards) and Cambridge City and South Cambridgeshire (for Internal Audit).

3.6: Engaging with Local People and Stakeholders

Good governance means engaging with local people and other stakeholders to ensure robust public accountability. The following describes how the Council achieves this:

- The Council's planning and decision making processes are designed to include consultation with stakeholders and the submission of their views.
- Every year we carry out many consultation exercises. Arrangements are in place to enable engagement with all sections of the community. These arrangements recognise that different sections of the community have different priorities and establish explicit processes for dealing with these competing demands. These have included Citizens Panel; Focus groups (face to face and on-line); Employee forums / Joint consultative forum; Voluntary and community sector network; One-off consultation events; and Public meetings. Varied channels of communication are used to reach all sections of the community and other stakeholders. Communication channels include: newspapers, surveys, press releases, internet, public question time at committee meetings, public speaking on planning applications, open forums, member surgeries etc.
- The Council has a number of significant partnerships and outsourced contracts. These are:
 - Greater Peterborough Partnership – our local strategic partner;
 - Peterborough Culture and Leisure Trust (Vivacity);
 - Opportunity Peterborough;

- Enterprise - An outsourced partnership for the provision of street scene activities previously undertaken by City Services;
- SERCO – Provision of Council back office facilities, including revenues and benefits and ICT services; and
- Health and Well Being Board - Overseeing expectations and service deliverables following the transfer of various activities from the PCT back to the Council.

4. REVIEW OF EFFECTIVENESS

The Council reviews the effectiveness of its governance framework including the system of internal control. The review of effectiveness is informed by managers within the Council who have responsibility for the development and maintenance of the governance environment, the work of the internal auditors, and also by comments made by the external auditors and other inspection agencies.

Both in year and year end review processes have taken place. In year review mechanisms include:

- Member engagement is ensured by:
 - Cabinet is responsible for considering overall financial and performance management and receives comprehensive reports on a quarterly basis. It is also responsible for key decisions and for initiating corrective action in relation to risk and internal control issues;
 - There is a scrutiny function which holds the Cabinet to account, which include an overview of service and financial performance, efficiency and effectiveness.
 - Audit Committee meet throughout the year to provide independent assurance to the Council in relation to the effectiveness of the risk management framework, internal control environment and the annual statement of accounts. It now has the combined remit to oversee Member conduct.
- Internal Audit is an independent and objective assurance service to the management of the Council who complete a programme of reviews throughout the year to provide an opinion of the internal control, risk management and governance arrangements. The work includes not only reviews of financial control, but also of risk management, control over the achievement of organisational policies and objectives, and compliance with laws and regulations. The outcome of all audit reviews are reported to the appropriate Director, and matters of concern are raised with the Chief Executive, Executive Director (Resources), Leader of the Council and the Chair of Audit Committee. Management of the Internal Audit function conforms to the principles contained in CIPFA's "Statement on the Role of the Head of Internal Audit in Local Government (2010)" and the "Public Sector Internal Audit Standards" effective from 1 April 2013.
- The Governance Team within Legal and Democratic Services undertakes investigations and detection work in relation to benefit fraud and corporate fraud.
- Risk management is handled through a range of mechanisms. Risk owners are in place for all corporate risks. The risks cascade down to the services, who manage the risks via the service planning process and regular review. Corporate risks are revisited through CMT. Risks are accounted for in all project planning, the creation of the MTFS and other Council operations as an inherent part of normal procedure.
- Work undertaken as part of the Strategic Governance Board. Made up of senior officers from across the Council and members, the Board has been established to consider, review and coordinate improvements in all aspects of the governance framework.
- A number of areas where identified in the preceding Annual Governance Statement and an update has been included on our progress to improve governance regarding these issues. Assurance from the Audit Commission, other Inspection Agencies and External Audit. On completion of their work, a Joint Audit and

Inspection Letter is issued to the Council. The last Joint Audit Letter was issued for the financial year 2011 / 2012, and was discussed and endorsed at meetings of the Cabinet and Audit Committee with an unqualified audit opinion on the financial statements.

The year end review of the governance arrangements and the control environment included:

- The Chief Internal Auditors' annual opinion on the status of the Council in terms of the governance and overall controls. For this year he has provided an unqualified opinion.
- Assurance from Executive Directors and their management teams on the key elements of the control framework were in place in their departments. The statement itself has been circulated to all Directors for consideration and is supported by them as an accurate reflection on the governance arrangements in place for the year.

5. SIGNIFICANT GOVERNANCE ISSUES

The review process has highlighted a number of new significant issues of the effectiveness of the governance and internal control environment. For each issue, detailed action plans have been determined, a responsible officer identified and a summary of the key elements are included in the table overleaf.

2011 / 2012 Governance Issues: Progress to Date

ISSUE	PROGRESS
<p>Implementation requirements of new legislation with governance implications, for example, the Localism Act.</p> <p>Robust arrangements are required to ensure that the Council introduces appropriate policies and procedures to deliver new legislation. Recent examples include:</p> <ul style="list-style-type: none"> • The Bribery Act (from July 2011). Creating offences of offering or receiving bribes, bribery of foreign public officials and of failure to prevent a bribe being paid on an organisations behalf. • The Localism Act (from November 2011). Devolving greater powers to local communities over housing and planning decisions, including Right to Challenge and Right to Bid for assets. <p>(Lead Officer: Solicitor to the Council)</p>	<p>Changes have been made to the Constitution – which have all been submitted to Council for approval – and governance processes to incorporate aspects of all new legislation have been implemented.</p> <p>Members are kept informed through All Party Policy meetings and the monthly Member Bulletins.</p>

<p>Establishment of a Local Scheme to administer welfare payments</p> <p>Various changes are proposed through the Welfare Reform Bill which will impact on how the Council pays and delivers its services. The Council will have to establish a local scheme and evaluate the impact on claimants and council services.</p> <p>(Lead Officer: Executive Director of Strategic Resources)</p>	<p>In its 2010 Spending Review the Government announced that it would localise support for Council Tax from April 2013 and at the same time reduce expenditure by 10%. The Councils MTFs approved by Council in February 2012 was based on a local scheme being adopted and resulting in no additional pressure on the council's budget. Following an Equality Impact Assessment and a six week public consultation Cabinet approved a local scheme that reduced benefit awards by 30% on 21 January 2013. Full Council then approved the scheme on 30 January 2013. The scheme was implemented on 1 April 2013.</p> <p>Peterborough Community Assistance Scheme is in place to review the impact of welfare reform and is under formal review until the end of June 2013. There is a Welfare Reform Action Group in place made up of senior management from the Council, Voluntary Sector organisations and other interested parties to review the scheme and modify as necessary. As new elements of Welfare Reform are rolled out, ongoing monitoring and change will implemented. This issue will roll forward into 2013 / 2014.</p>
<p>Transfer of Adult Social Care</p> <p>Adult Social Care Services reverted to the local authority environment from February 2012. While there has been an initial smooth transfer of activities / services there is a need to review the processes and procedures so that there is efficient integration</p> <p>(Lead Officer: Director of Adult Social Care)</p>	<p>Adult Social Care is undergoing major transformation to deliver care and support in line with a clear outcome focused approach to personalisation. This promotes independence and reduced demand for ongoing statutory support through advice and information, prevention, reablement, transitional support and ongoing support for adults with substantial / critical needs.</p> <p>This requires a new approach to assessment and care management which is under development with the council's strategic partner, Serco. Current services are in the process of being reviewed and re-commissioned to align with the vision.</p> <p>This will continue into 2013 / 2014.</p>
<p>Safeguarding</p> <p>Process and delivery improvements are required following poor service inspections within Children's Services. Delivery against an agreed OFSTED Action Plan requires effective monitoring and immediate action to address any shortfalls.</p> <p>(Lead Officer: Executive Director of Children's Services)</p>	<p>The Interim Director of Children's Services has strengthened the senior management arrangements in Children's Services with the effect of a renewed focus on service improvement. From April 2012 a more robust approach to performance management was introduced and evidence of steady improvement against actions within the Ofsted Action Plan and the Improvement Plan that followed the Improvement Notice was evident. These improvements have been validated by monthly External Improvement Board and culminated in a positive Ofsted Safeguarding Inspection in January 2013 where an overall judgment of Adequate was secured.</p> <p>While the LA remains subject to intervention, confidence in respect of improvement is such that PCC has written to the Children's Minister requesting that consideration be given to lifting the Improvement Notice. An outcome to the request is currently awaited. It is understood that any reservations on the part of the Minister are likely to be linked to the issue of sustainability given the history of the City in this regard.</p>

<p>Equalities and Diversity</p> <p>The Council needs to improve on its arrangements to undertake Equality Impact Assessments (EIA) and embeds these within its Service Delivery Plans</p> <p>(Lead Officer: Executive Director of Operations)</p>	<p>There has been a marked improvement in the arrangements for completion of EIA and are included in Committee papers where appropriate.</p>
<p>Information Governance</p> <p>The Council needs to demonstrate that arrangements are in place for the security of information when it is taken out of the workplace, either on portable devices or where systems are accessed remotely via mobile or home based working or manual information</p> <p>(Lead Officer: Solicitor to the Council)</p>	<p>Information Governance has a high profile across the Council. The Council has established a Data Protection Working Group to oversee its development and compliance. There are strong processes established for the use of and security of data. It has signed up to a county wide Data Sharing Protocol and put in place procedures for reporting any breaches. The Council works in partnership with its ICT provider, Serco, to monitor data usage.</p> <p>This will continue into 2013 / 2014.</p>
<p>Risk Management and Business Continuity</p> <p>There has been a repositioning of risk management and business continuity within the Council. There is a need to reappraise the effectiveness of the risk management process and to refresh business continuity and emergency planning arrangements, including undertaking a mock exercise.</p> <p>(Lead Officer: Executive Director of Operations)</p>	<p>A revised Risk Management and Business Continuity Strategy was approved by Audit Committee in November 2012. There is ongoing work to embed risk management across the Council and regular reports are submitted and discussed with Directors. Similarly, update reports on risk are referred to Audit Committee.</p> <p>With regard to business continuity, the Council has identified those key systems critical to the ongoing delivery of services should there be an emergency plan activated. Further work is to be commissioned to verify that our plans are effective and various mock exercises will be planned for 2013 / 2014. This governance issue will roll forward.</p>

2012 / 2013 Governance Issues:

Ongoing governance issues which have rolled forward are:

- Monitoring of the impact of Welfare Reform;
- Adult Social Care transformation;
- Information Governance; and
- Risk management and business continuity

The following new areas have been identified during the year for resolving:

<p>NEW GOVERNANCE ISSUE</p>	<p>Children in Care</p> <p>Arrangements and associated budget pressures are key issues facing the service. There is a need to recruit and retain social workers to maintain stable safeguarding arrangements.</p> <p>It is generally understood that improvements made in safeguarding services can lead to an increase in the children in care population. This is a result of risks being better identified and intervention being more robust where previously there may have been drift. What can be expected over a period of around three years is that rise in numbers evens out and then starts to reduce as difficulties are identified at an earlier stage and interventions more effectively targeted to prevent deterioration and ensure remedial action is timely. Any increase in numbers of looked after children represents potential budgetary pressures however there are mitigating actions being put in place. These form the basis of the strategy and include:</p> <ul style="list-style-type: none"> • Providing robust early intervention and family support to prevent the need for children coming into care • Reduce the period of time children spend in care by timely progression of rehabilitation plans, adoption and Special Guardianship applications • Ensure placements made represent value for money by increasing the use of high quality in house carers including maximising the use of family and friends carers, reduce the reliance on independent sector foster placements, and reduce the use of residential care. • Ensure caseloads are reduced to acceptable and therefore manageable sizes. • Replacement of agency staff with permanent social workers 	<p>(Lead Officer: Executive Director of Children's Services)</p>
<p>Commissioning and Partnerships</p> <p>Commissioning and partnerships with other local authorities and sectors are used as vehicles for delivering public services. These create special challenges for clear accountability and good governance. Shared services between organisations can bring substantial benefits, including cost savings for the parties involved, although at the same time there are distinct issues surrounding what happens if something goes wrong. There is a need to ensure that clear governance is established.</p>	<p>(Lead Officer: Chief Executive)</p>	<p>(Lead Officer: Chief Executive)</p>
<p>Integration of new services as a result of the Health and Social Care Act 2012</p> <p>PCC inherited new public health functions from April 2013. Services, staff and contracts transferred from local and national NHS bodies. PCC must integrate these new functions at both strategic and delivery level.</p> <p>With the appointment of a Director of Public Health and establishment of a Health and Wellbeing Board, the challenge is to ensure that following transfer the functions are carried out in accordance with PCC's governance and decision-making frameworks.</p>	<p>(Lead Officer: Public Health Executive Director)</p>	<p>(Lead Officer: Public Health Executive Director)</p>

<p>Robust Financial Strategy to allow for implementing changes following the Local Government Resources Review</p> <p>Ongoing financial pressures need to be carefully managed. Future spending reviews could result in difficult decisions being made which will need appropriate analysis for effective decision making with robust financial management arrangements in place. In light of the identification of undeclared VAT on expenditure at Westcombe, there is a need to ensure that there is review of all "unusual" council business activities.</p>	<p>(Lead Officer: Executive Director of Strategic Resources)</p>
<p>Embedding Corporate Governance</p> <p>Communication of corporate governance (or key aspects of it) to staff and others to ensure it is understood and embedded. As the organisation changes and new arrangements start to be embedded there is a fundamental need to ensure that corporate governance is at the forefront of these changes so as to ensure that both stakeholders, service providers and staff are protected.</p>	<p>(Lead Officer: Solicitor to the Council)</p>

6. CERTIFICATION

As Leader and Chief Executive, we have been advised on the implications of the results of the review of effectiveness of the Council's governance framework, by the Audit Committee and Cabinet.

Our overall assessment is that the Annual Governance Statement is a balance reflection of the governance environment and that an adequate framework exists within Peterborough City Council to ensure effective internal control is maintained. We are also satisfied that there are appropriate plans in place to address any significant governance issues and will monitor their implementation and operations as part of our next annual review.

Leader of the Council Marco Cereste _____ Date

Chief Executive Gillian Beasley _____ Date

This page is intentionally left blank

AUDIT COMMITTEE	AGENDA ITEM No. 8
24 JUNE 2013	PUBLIC REPORT

Cabinet Member(s) responsible:	Resources portfolio holder, Cllr Seaton	
Contact Officer(s):	Steven Pilsworth, Head of Corporate Services	Tel. 384564

INVEST TO SAVE UPDATE

RECOMMENDATIONS	
FROM : PriceWaterhouseCoopers (PwC)	Deadline date : N/A
<p>1. To note the scope of the work by PriceWaterhouseCoopers (PwC), per 4.2.</p> <p>2. To note that the PwC are not minded to challenge the governance arrangements used in the allocation of the 'Invest to Save' budget to qualifying schemes.</p>	

1. ORIGIN OF REPORT

- 1.1 This report is submitted to the Committee following a request from members of the Audit Committee at the 27 March 2013.

2. PURPOSE AND REASON FOR REPORT

- 2.1 The purpose of this report is to provide an update on the progress of PriceWaterhouseCoopers (PwC) audit of the Invest to Save Scheme, as requested by the Audit Committee at its meeting on 27 March 2013, agenda item 7.
- 2.2 This report is for Committee to consider under its Terms of Reference No.s 2.2.1.6 to consider specific reports as agreed with the external auditor, and 2.2.1.9 to commission work from the external audit.

3. TIMESCALE

Is this a Major Policy Item/Statutory Plan?	NO	If Yes, date for relevant Cabinet Meeting	
---	-----------	---	--

4. INVEST TO SAVE BUDGET

Background

- 4.1 At the Audit Committee on 24 September 2012 it was agreed that PwC would discuss with Officers and the Audit Committee an appropriate scope of work to look at the governance arrangements with respect to elements of the allocation of expenditure within the Council's budget policy framework. This would be completed as part of the 2012/13 external audit.

Scope of Work

- 4.2 During February 2013 it was proposed that PwC would consider:
- whether the decision making process to determine governance arrangements in respect of the allocation of £100m to the 'Invest to Save' budget were in accordance with the Council's constitution; and
 - whether the Council put arrangements in place to enable it to consider whether subsequent expenditure allocated against the 'Invest to Save' budget was in

accordance with the principles agreed by Cabinet on 10 February 2012 and Full Council on 22 February 2012.

PwC Findings

- 4.3 Based on the information received and mindful of the Statement of Responsibilities (see Appendix A), PwC are not currently minded to challenge the decision making process to determine governance arrangements in respect of the allocation of £100m to the 'Invest to Save' budget.
- 4.4 It has been noted that the three schemes to which the 'Invest to Save' budget has been allocated to date, have been assessed using the Council's standard business case process. As such based on the information received and mindful of the Statement of Responsibilities PwC are not currently minded to challenge the arrangements the Council has put in place to enable it to consider whether expenditure allocated against the 'Invest to Save' budget is in accordance with the principals for its use.
- 4.5 To date, the Council has incurred additional external audit costs through this Invest To Save audit of £5,000.

5. CONSULTATION

- 5.1 No external consultation has been undertaken.

6. ANTICIPATED OUTCOMES

- 6.1 Assurance is gained that the 'Invest to Save' budget has been applied to schemes in accordance with the governance arrangements agreed in February 2012 by Cabinet and Full Council.

7. REASONS FOR RECOMMENDATIONS

- 6.1 The audit completed by PwC has indicated that they are not minded to challenge application of the governance arrangements applied in the use of the 'Invest to Save' scheme to date.

8. ALTERNATIVE OPTIONS CONSIDERED

- 8.1 This report was requested as an update to the progress PwC has made with regards to the request made by Audit Committee. As such no specific options are submitted for consideration.

9. IMPLICATIONS

- 9.1 There are no implications arising from this review. However the works completed to date have meant the Council has incurred an additional £5,000 of external audit costs.

10. BACKGROUND DOCUMENTS

Used to prepare this report, in accordance with the Local Government (Access to Information) Act 1985)

- Audit Committee Meeting Minutes, 27 March 2013, Item 7
- PwC letter, 'Invest to Save', 7 March 2013 (Appendix A)
- Audit Committee Meeting Minutes, 24 September 2012, Item 4

11. APPENDICES

- Appendix A – Invest to Save Letter



John Harrison
 Peterborough City Council
 Town Hall
 Bridge Street
 PETERBOROUGH
 PE1 1HG

7 March 2013

Dear John

Invest to Save

At the Audit Committee on 24 September 2012, it was agreed that PwC would discuss with Officers and the Audit Committee an appropriate scope of work to look at the governance arrangements with respect to elements of the allocation of expenditure within the Council's budget policy framework. This would be done as part of the external audit for 2012/13.

In our letter to you dated 12 February 2013, we proposed that we would (I) consider whether the decision making process to determine governance arrangements in respect of the allocation of £100m to the 'Invest to Save' budget were in accordance with the Council's constitution, and (II) consider whether the Council put arrangements in place to enable it to consider whether subsequent expenditure allocated against the Invest to Save budget was in accordance with the principles agreed by Cabinet on 10 February 2012 and Full Council on 22 February 2012.

In completing this work, we have had regard to the Audit Commission's **Statement of Responsibilities of Auditors and Audited Bodies**, which states that:

“Those responsible for the conduct of public business and for spending public money are accountable for ensuring that public business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively. In discharging this accountability, public bodies are responsible for putting in place proper arrangements for the governance of their affairs and the stewardship of the resources at their disposal” (Paragraphs 5 & 6). *“Auditors have a responsibility to satisfy themselves that the audited body has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources”* (Paragraph 31).

The Statement of Responsibilities also states *“There may be occasions when audited bodies seek the views of auditors on the legality, accounting treatment or value for money of a transaction before embarking upon it. In such cases, auditors are as helpful as possible, but are precluded from giving a definite view in any case because auditors:*

- *must not prejudice their independence by being involved in the decision-making processes of the audited body;*
- *are not financial or legal advisers to the audited body; and*

PricewaterhouseCoopers LLP, The Atrium, St Georges Street, Norwich, NR3 1AG
 T: +44 (0) 1224 210100, F: +44 (0) 1224 253318, www.pwc.co.uk

PricewaterhouseCoopers LLP is a limited liability partnership registered in England with registered number OC303525. The registered office of PricewaterhouseCoopers LLP is 1 Embankment Place, London WC2N 6RH. PricewaterhouseCoopers LLP is authorised and regulated by the Financial Services Authority for designated investment business.

- *may not act in any way that might fetter their ability to exercise the special powers conferred upon them by statute” (Paragraph 51).*

The decision making process

The Council’s Constitution states the following:

- “Only the Council can approve or adopt the major Policy Framework, the Budget and any application for housing land transfer (Article 4.4 (b)); and,
- “a decision which results in a significant amount spent or saved will not generally be considered to be a key decision if the amount spent or saved is less than £500,000” (Article 11.3).

The decision making process to determine governance arrangements in respect of the allocation of £100m to the 'Invest to Save' budget involved a discussion at the January 30th budget scrutiny meeting, at which it was agreed that a set of principles covering the use of this budget would be adopted. This included the principle that “Proposals will need to be subject to the Council’s decision making requirements e.g. any schemes above £500k will be subject to a Cabinet Member Decision Notice approved by the Cabinet Member for Resources and the relevant portfolio holder”.

The initial allocation of the £100m, together with the principles concerning subsequent allocation to individual schemes were included in the budget plans recommended by Cabinet on February 10th, and approved by Full Council on February 22nd.

Based on the information we have seen and mindful of the Statement of Responsibilities, we are currently not minded to challenge the decision making process to determine governance arrangements in respect of the allocation of £100m to the 'Invest to Save' budget.

Arrangements in place regarding subsequent expenditure

At the Scrutiny meeting on 30th January 2012, a set of principles outlining how the Invest to Save budget should be spent were agreed. These principles included the requirement that “each project would need to complete the Council’s standard full business case. This would include the required officer evaluation and approval as for all business cases”.

We note that the three schemes (described below) to which Invest to Save budget has been allocated to date, have been assessed using the Council’s standard business case process.

Furthermore, we note that the Schools Photovoltaic Panels scheme was approved in a Cabinet Member Decision notice (22 March 2012), the Renewable Energy Studies scheme was approved in a Cabinet meeting on 10 July 2012, and that the Energy from Waste scheme was approved in a Cabinet Member Decision notice 13 August 2012 and subject to a call-in by the Sustainable Growth and Environment Capital Scrutiny Committee on 29 August 2012.

Based on the information we have seen and mindful of the Statement of Responsibilities, we are currently not minded to challenge the arrangements the Council has put in place to enable it to consider whether subsequent expenditure allocated against the Invest to Save budget is in accordance with the principles agreed by Cabinet on 10 February 2012 and Full Council on 22 February 2012.



As noted above, these comments are given based on the information we have been given to date. Importantly, as Appointed Auditors, we cannot fetter our judgement in event that further relevant information is brought to our attention.

Please do let me know if you have any queries.

Yours sincerely

Julian Rickett
For and on behalf of PricewaterhouseCoopers

CC:
Gillian Beasley – Chief Executive
Councillor Diane Lamb – Chair of Audit Committee

This page is intentionally left blank

AUDIT COMMITTEE	AGENDA ITEM No. 9
24 JUNE 2013	PUBLIC REPORT

Cabinet Member(s) responsible:	Councillor Seaton, Resources Portfolio Holder	
Committee Member(s) responsible:	Councillor Lamb, Chair of Audit Committee	
Contact Officer(s):	Steve Crabtree, Chief Internal Auditor	☎ 384 557

FEEDBACK REPORT

1. ORIGIN OF REPORT

This is a standard report to Audit Committee which forms part of its agreed work programme.

2. PURPOSE AND REASON FOR REPORT

This standard report provides feedback on items considered or questions asked at previous meetings of the Committee. It also provides an update on any specific matters which are of interest to the Committee or where Committee have asked to be kept informed of progress.

3. APPENDICES

Appendix A - Feedback Responses

AUDIT COMMITTEE: RECORD OF ACTION TAKEN

MUNICIPAL YEAR: MAY 2013 - APRIL 2014

DATE ISSUE RAISED	AGENDA ITEM / ACTION ARISING	OFFICER RESPONSIBLE	ACTION TAKEN	SIGN OFF DATE
Item 5 Feedback Report	To send a reminder of the Work Programme to Audit Committee Members prior to the agenda despatch date for the next meeting.	Karen S Dunleavy	First reminder sent on 12 June 2013	12 June 2013

AUDIT COMMITTEE	AGENDA ITEM No. 10
24 JUNE 2013	PUBLIC REPORT

Cabinet Member(s) responsible:	Councillor Seaton, Resources Portfolio Holder	
Committee Member(s) responsible:	Councillor Lamb, Chair of Audit Committee	
Contact Officer(s):	Steve Crabtree, Chief Internal Auditor	☎ 384 557
	Karen Dunleavy, Governance Officer	☎ 452 233

WORK PROGRAMME

1. ORIGIN OF REPORT

1.1 This is a standard report to Audit Committee which forms part of its agreed work programme. This standard report provides details of the:

- Work Programme for 2013 / 2014.

2. UPDATE

2.1 Work Programme 2013 / 2014

The Work Programme is based on previous years agendas. The programme has been refreshed throughout the year in consultation with senior officers and the Committee membership to ensure that it remains relevant and up to date. In addition, any delays in reporting issues are recorded so that they do not drop off the committee agenda.

3. APPENDICES

3.1 Appendix A – Work Programme 2013/14

This page is intentionally left blank

WORK PROGRAMME 2013/14

Training for Members on specific aspects of the Audit Committee agenda items are available through the year and will be arranged on request and will take place on separate day to that of the Committee meeting.

DATE: 6 JUNE 2013			
		Section / Lead	Description
Standard	Apologies for Absence		
Standard	Declarations of Interest and Whipping Declarations		
Standard	Minutes of the Meeting Held on 27 March 2013	Democratic Services Karen Dunleavy	
* NEW *	Outcome of Standards Complaints under the previous regime (pre July 2012)		
Standard	Feedback Report	Democratic Services Karen Dunleavy	
Standard	Work Programme 2013 / 2014	Democratic Services Karen Dunleavy	

WORK PROGRAMME 2013/14

Training for Members on specific aspects of the Audit Committee agenda items are available through the year and will be arranged on request and will take place on separate day to that of the Committee meeting.

DATE: 24 JUNE 2013			
		Section / Lead	Description
Standard	Apologies for Absence		
Standard	Declarations of Interest and Whipping Declarations		
Standard	Minutes of the Meeting Held on 6 June 2013	Democratic Services Karen Dunleavy	
	Internal Audit: HoIA Opinion 2012 / 2013	Internal Audit Steve Crabtree	To receive, consider and endorse the annual report on Internal Audit activities for the year ended 31 March 2013
	Internal Audit: Review of Effectiveness	Internal Audit Steve Crabtree	To receive, consider and endorse the annual review of the effectiveness of Internal Audit for the year ended 31 March 2013 together with any associated action plan
	Draft Annual Governance Statement	Internal Audit Steve Crabtree	To receive, consider and endorse the draft Annual Governance Statement for the year ended 31 March 2013
	Budget Monitoring Report Final Outturn 2012 / 2013 and the Draft Statement of Accounts	Finance Steven Pilsworth	To receive, consider and endorse the final outturn position for the year ended 31 March 2013 and the draft Statement of Accounts
* NEW *	Invest To Save Update	Finance Steven Pilsworth	Following a Member request to External Audit to review the Invest to Save scheme, PwC will provide an update on their works
	Other Governance Reports	Governance Diane Baker	Subject to new policies needing approval
	Member Reports	Governance Diane Baker	Dependent on updates
Standard	Feedback Report	Democratic Services Karen Dunleavy	
Standard	Work Programme 2013 / 2014	Democratic Services Karen Dunleavy	

WORK PROGRAMME 2013/14

Training for Members on specific aspects of the Audit Committee agenda items are available through the year and will be arranged on request and will take place on separate day to that of the Committee meeting.

DATE: 23 SEPTEMBER 2013			
		Section / Lead	Description
Standard	Apologies for Absence		
Standard	Declarations of Interest and Whipping Declarations		
Standard	Minutes of the Meeting Held on 24 June 2013	Democratic Services Karen Dunleavy	
	Risk Management: Strategic Risks	Operations Kevin Dawson	To receive an update on the strategic risks for the Council
	Compliance Team Annual Report 2012 / 2013	Governance Diane Baker	To receive, consider and endorse the annual report on the investigation of fraud and irregularities for the year ended 31 March 2013
	Regulation of Investigatory Powers Act (2000): Quarterly Report 1	Governance Diane Baker	To receive an update of RIPA during the 3 months to 30 June 2013
	Audit of Statement of Accounts To Those Charged with Governance	Finance Steven Pilsworth	To receive the final Statement of Accounts for the year ended 31 March 2013 and the annual report to those charged with governance following their scrutiny by External Audit
* DATE CHANGE *	Whistleblowing Policy	Governance Diane Baker	Original policy scheduled for June 2013.
	Other Governance Reports	Governance Diane Baker	Subject to new policies needing approval
	Member Reports	Governance Diane Baker	Dependent on updates
Standard	Feedback Report	Democratic Services Karen Dunleavy	
Standard	Work Programme 2013 / 2014	Democratic Services Karen Dunleavy	

WORK PROGRAMME 2013/14

Training for Members on specific aspects of the Audit Committee agenda items are available through the year and will be arranged on request and will take place on separate day to that of the Committee meeting.

DATE: 4 NOVEMBER 2013			
		Section / Lead	Description
Standard	Apologies for Absence		
Standard	Declarations of Interest and Whipping Declarations		
Standard	Minutes of the Meeting Held on 23 September 2013	Democratic Services Karen Dunleavy	
	Internal Audit: Mid Year Progress Report	Internal Audit Steve Crabtree	To receive an update on progress against the Annual Audit Plan together with details of any concerns
	Treasury Management	Finance Steven Pilsworth	To receive an update on the policy and effectiveness of treasury management
	Use of Consultants	Finance Steven Pilsworth	To receive an update on the Use of Consultants across the organisation
	Regulation of Investigatory Powers Act (2000): Quarterly Report 2	Governance Diane Baker	To receive an update of RIPA during the 3 months to 30 September 2013
	Other Governance Reports	Governance Diane Baker	Subject to new policies needing approval
	Member Reports	Governance Diane Baker	Dependent on updates
Standard	Feedback Report	Democratic Services Karen Dunleavy	
Standard	Work Programme 2013 / 2014	Democratic Services Karen Dunleavy	

WORK PROGRAMME 2013/14

Training for Members on specific aspects of the Audit Committee agenda items are available through the year and will be arranged on request and will take place on separate day to that of the Committee meeting.

DATE: 3 FEBRUARY 2014			
		Section / Lead	Description
Standard	Apologies for Absence		
Standard	Declarations of Interest and Whipping Declarations		
Standard	Minutes of the Meeting Held on 4 November 2013	Democratic Services Karen Dunleavy	
	External Audit: Report to Management	PwC	To receive and approve the External Audit report in relation to issues identified as part of their audit works
	External Audit: Annual Audit Letter	PwC	To receive and approve the External Audit report in relation to issues identified as part of their audit works
	External Audit: Grant Claims Annual Certification	PwC	To receive and approve the External Audit report in relation to issues identified as part of their audit works
	Other Governance Reports	Governance Diane Baker	Subject to new policies needing approval
	Member Reports	Governance Diane Baker	Dependent on updates
Standard	Feedback Report	Democratic Services Karen Dunleavy	
Standard	Work Programme 2013 / 2014	Democratic Services Karen Dunleavy	

WORK PROGRAMME 2013/14

Training for Members on specific aspects of the Audit Committee agenda items are available through the year and will be arranged on request and will take place on separate day to that of the Committee meeting.

DATE: 24 MARCH 2014			
		Section / Lead	Description
Standard	Apologies for Absence		
Standard	Declarations of Interest and Whipping Declarations		
Standard	Minutes of the Meeting Held on 3 February 2014	Democratic Services Karen Dunleavy	
	Risk Management: Strategic Risks	Operations Kevin Dawson	To receive an update on the strategic risks for the Council
	External Audit: Audit Plan	PwC	To receive and approve the External Audit Plan
	Internal Audit: Draft Internal Audit Plan 2014 / 2015	Internal Audit Steve Crabtree	To receive and approve the Internal Audit Plan 2014 / 2015
	Effectiveness of the Audit Committee	Internal Audit Steve Crabtree	To receive an update on the effectiveness of the Audit Committee together with an Action Plan to address any shortcomings
	Draft Annual Audit Committee Report	Democratic Services Karen Dunleavy	To receive the Draft Annual Audit Committee Report prior to submission to Council
	Regulation of Investigatory Powers Act (2000): Quarterly Report 3	Governance Diane Baker	To receive an update of RIPA during the 3 months to 31 December 2013
	Member Reports	Governance Diane Baker	Subject to new policies needing approval
Standard	Feedback Report	Democratic Services Karen Dunleavy	Dependent on updates
Standard	Work Programme 2013 / 2014	Democratic Services Karen Dunleavy	